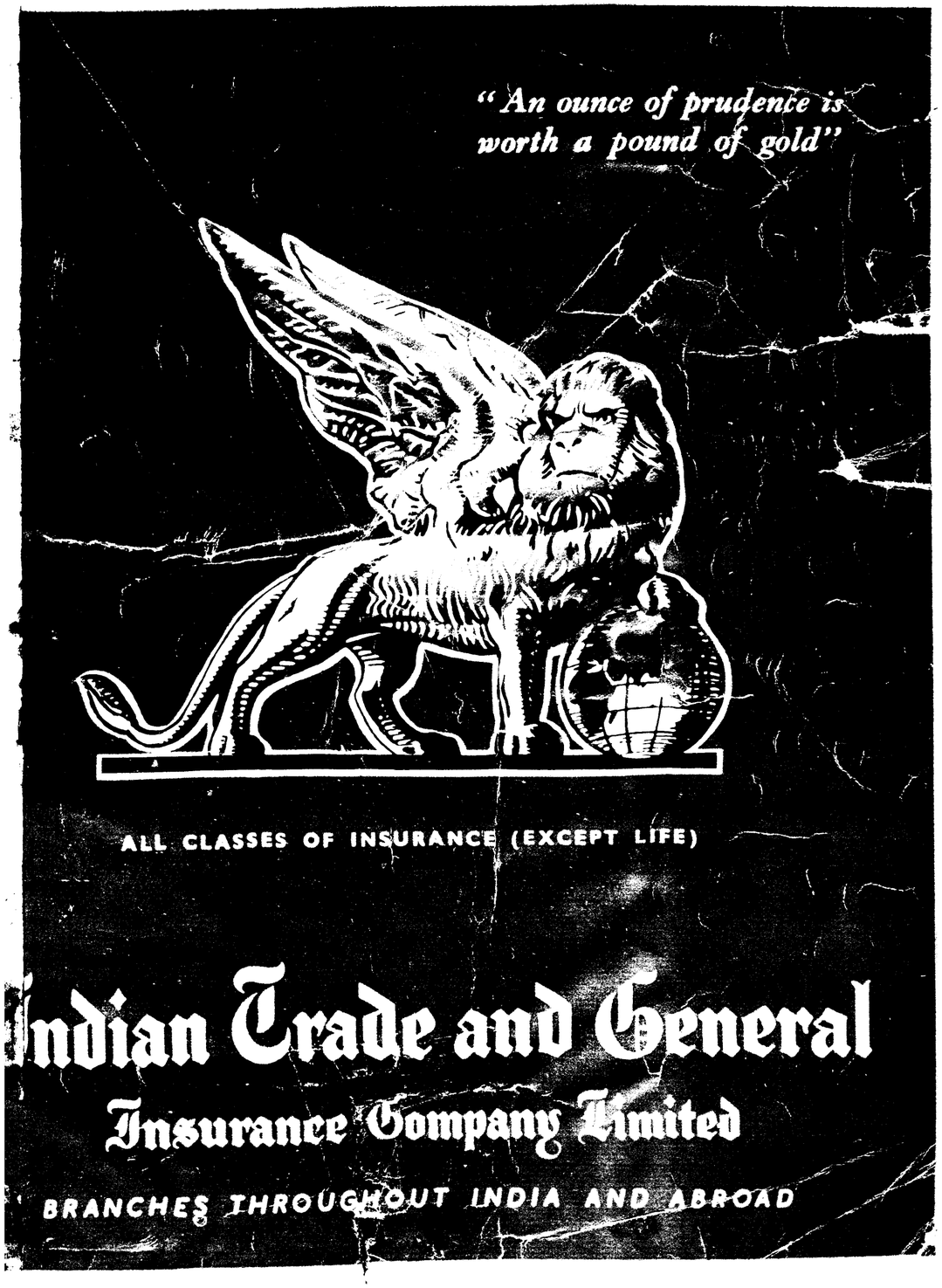
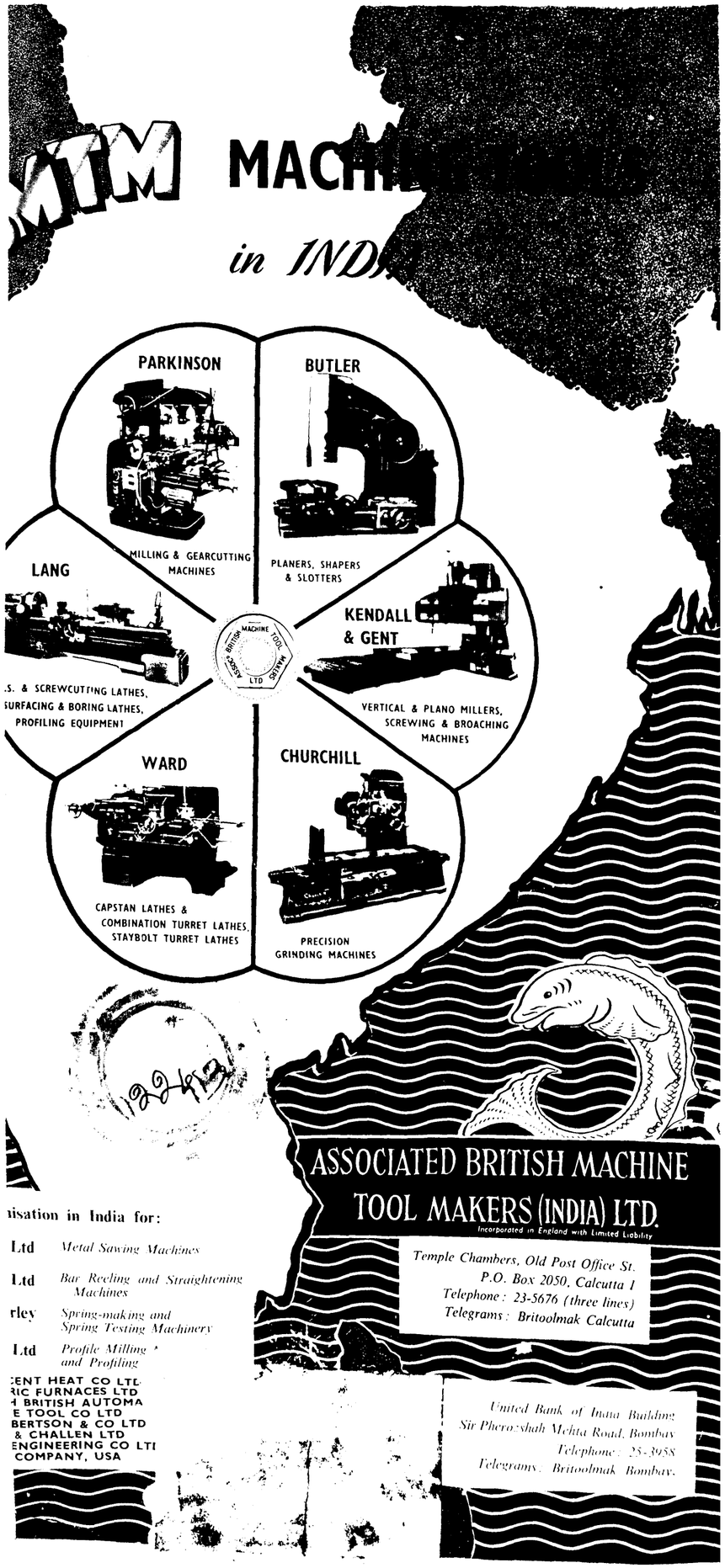
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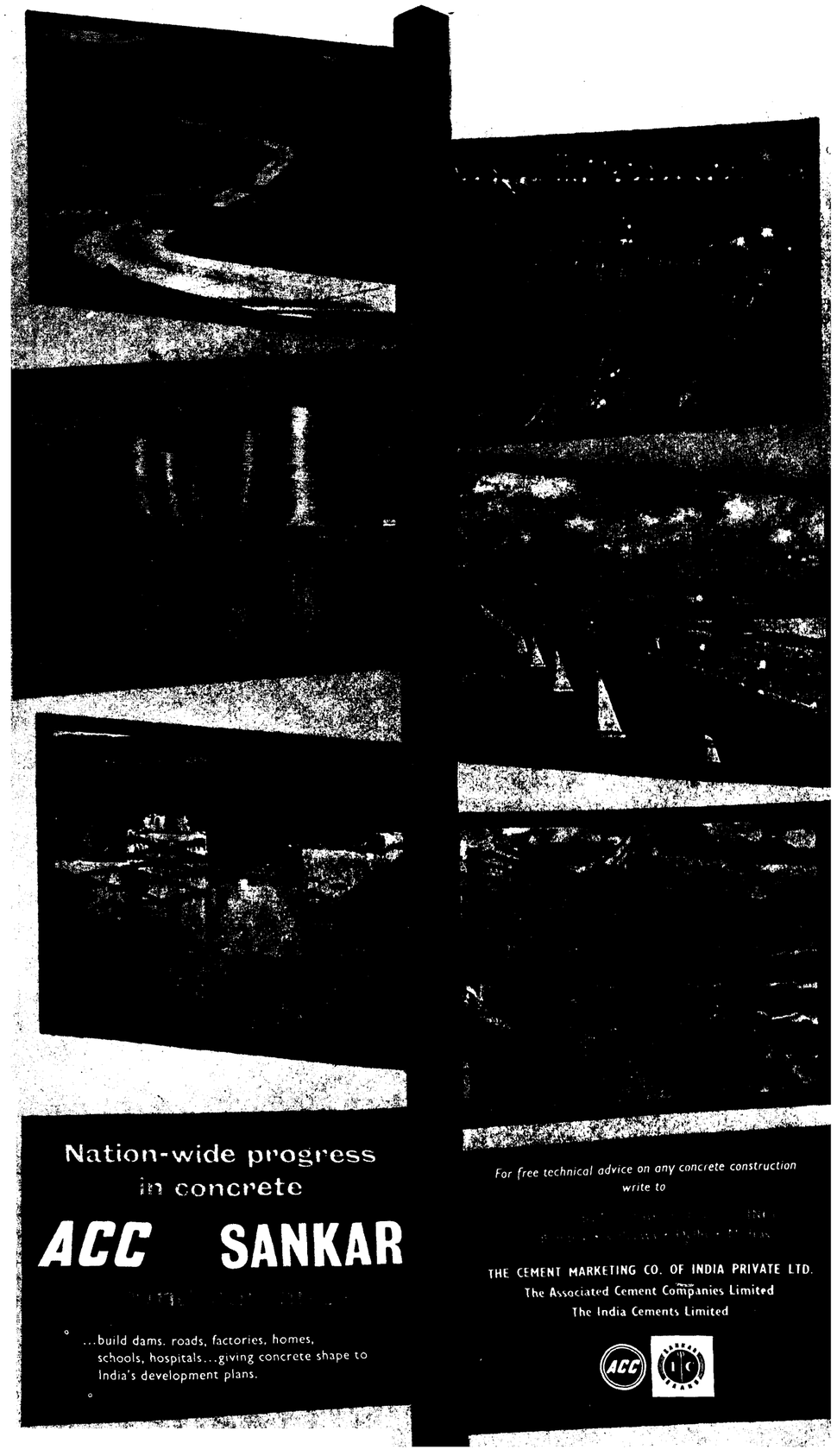
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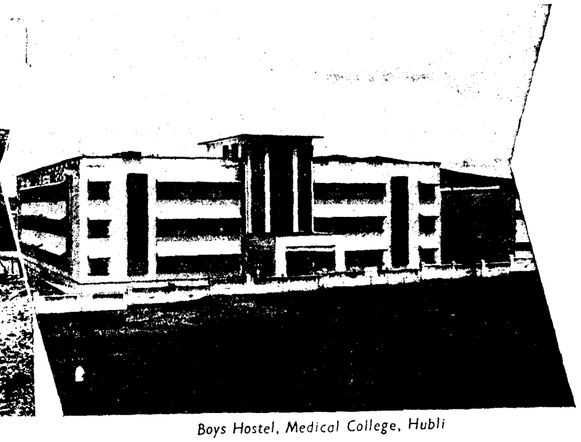
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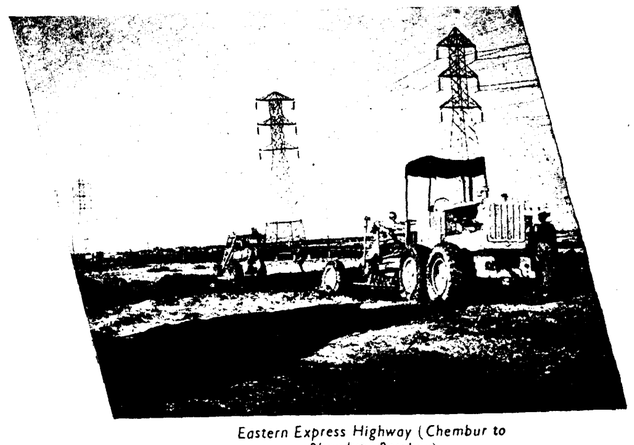
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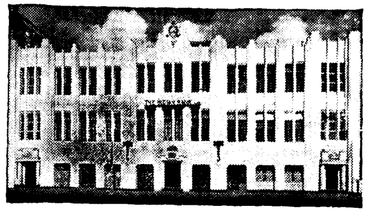
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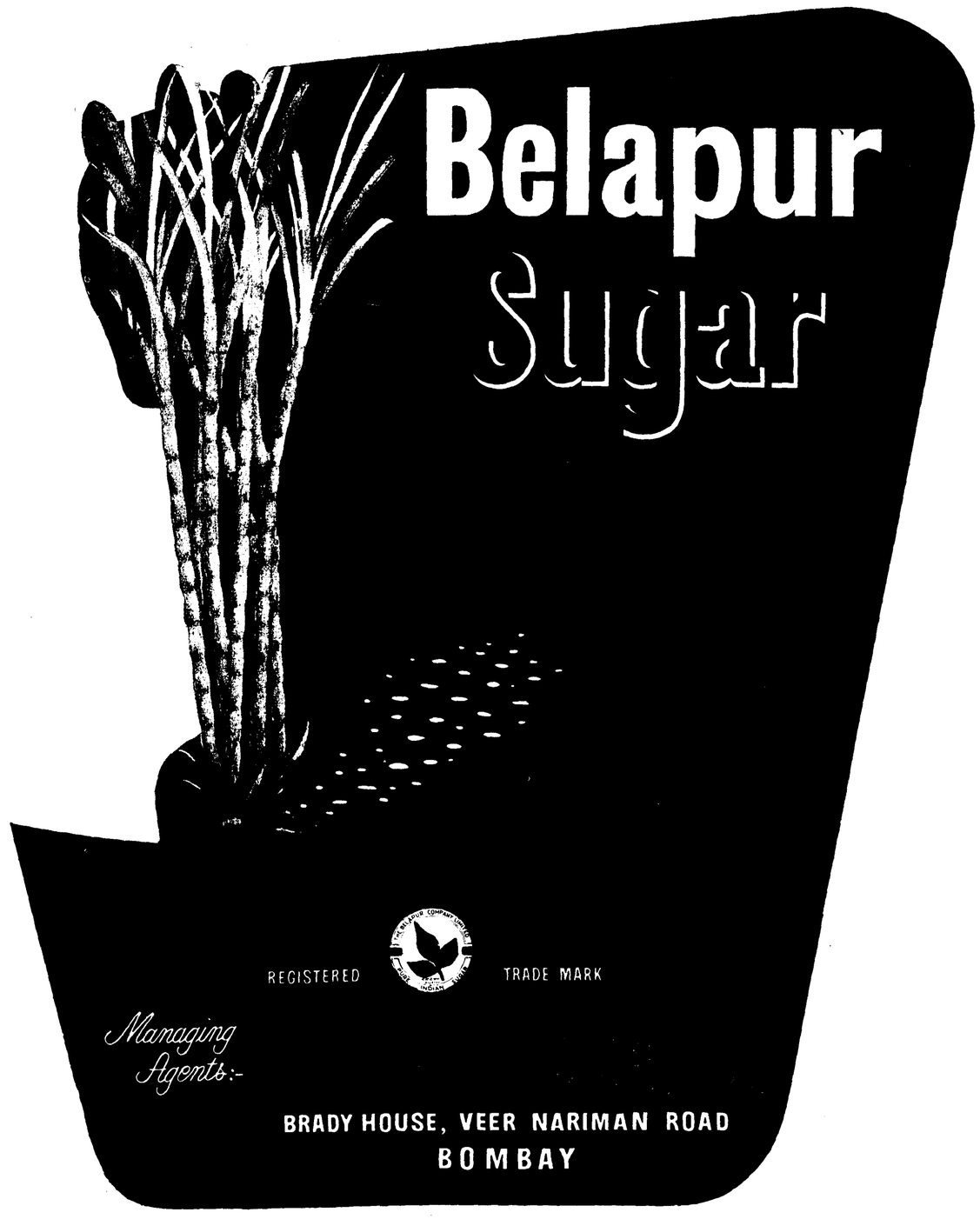
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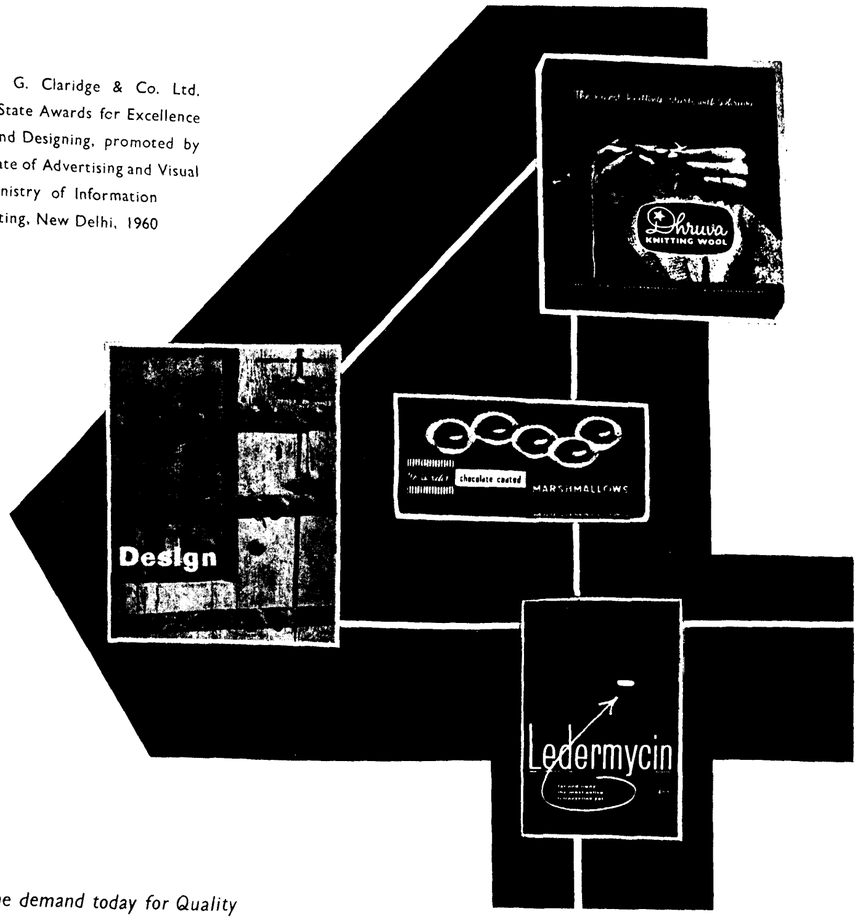
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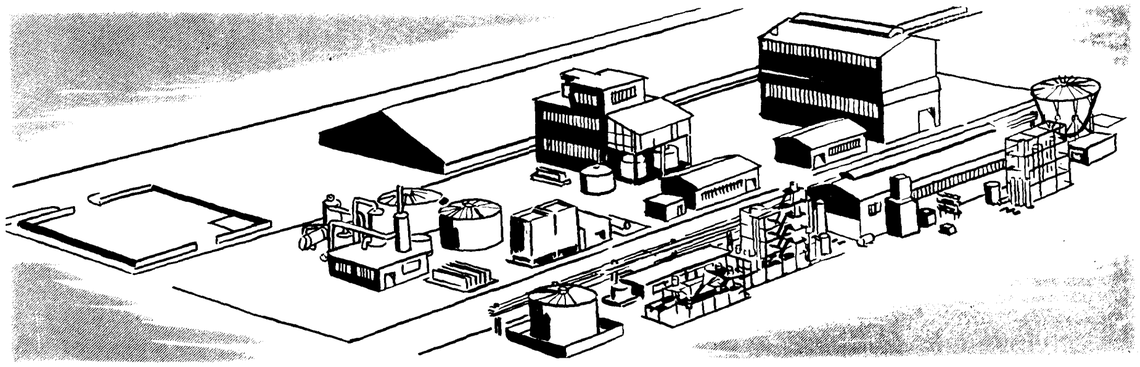
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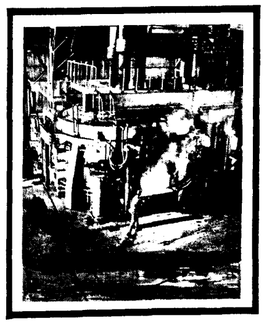
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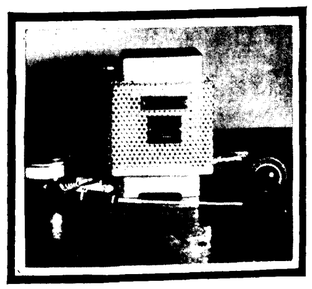
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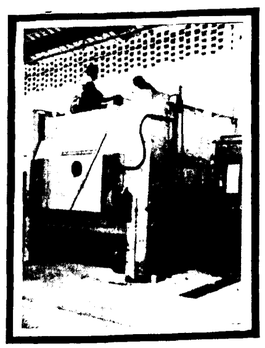
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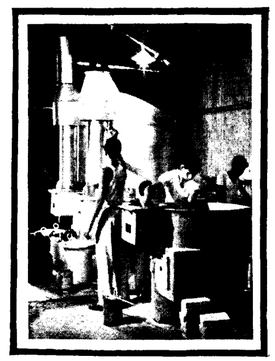
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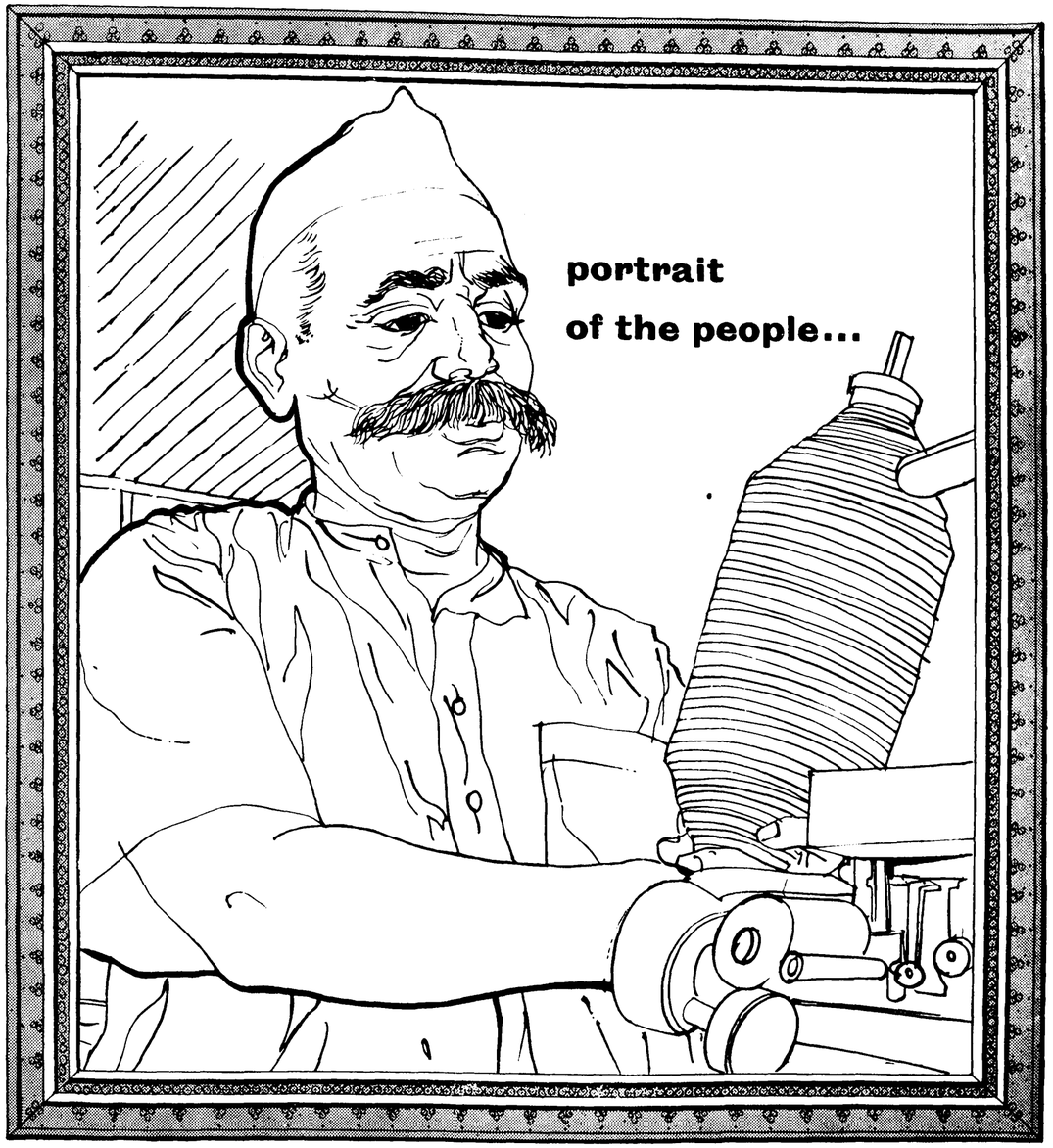
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A G.W.B. Carburizing Furnace at Hindustan Motors being charged with Carburizing Boxes with a Gibbons-Van Marle Charging Machine.



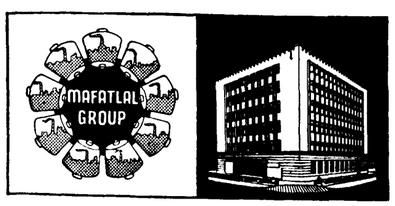
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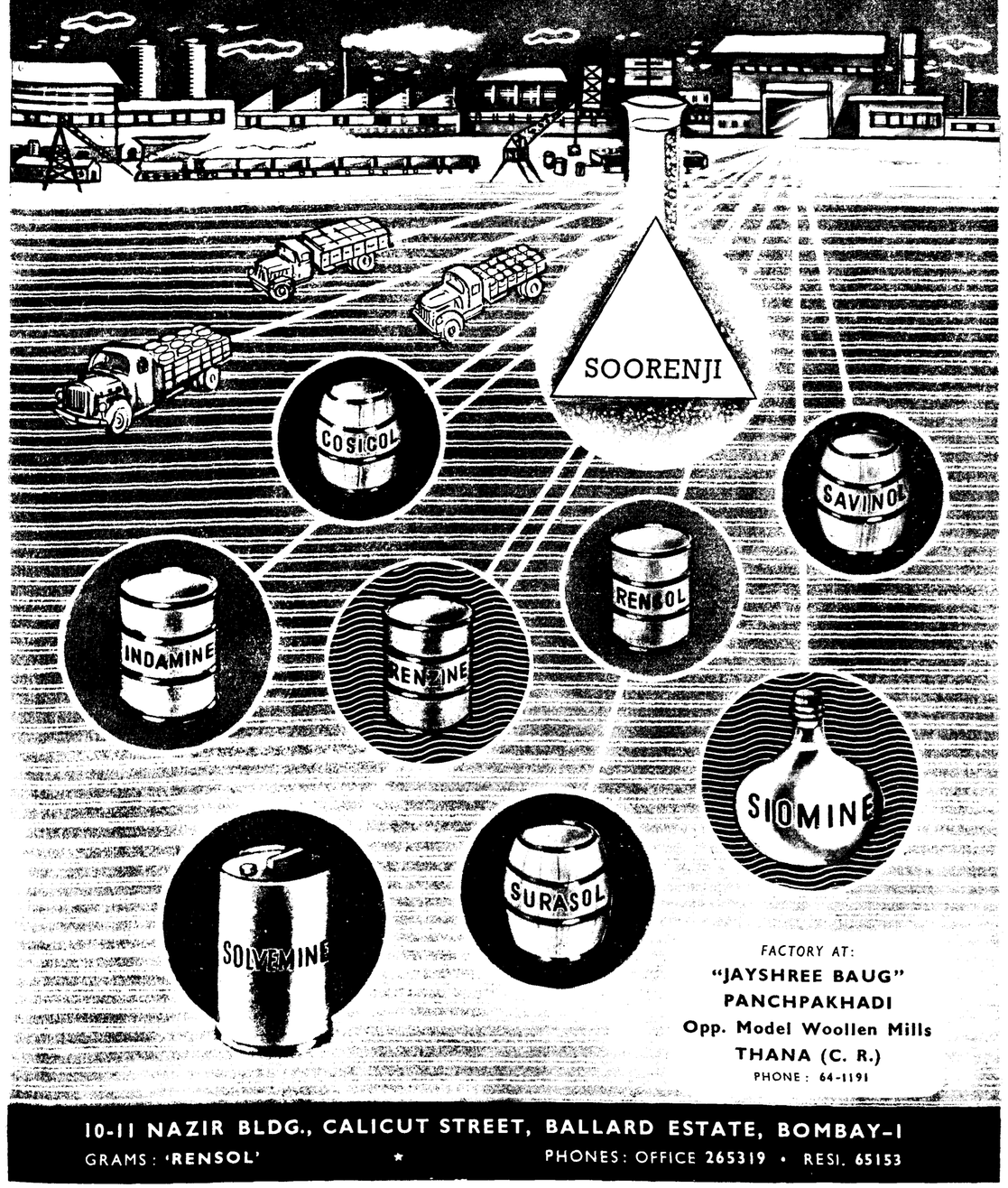


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CONTENTS

	Page
LEADING ARTICLE :	
1960 Disappoints the World	15
FEATURE ARTICLES :	
COMMERCE **Completes Fifty Years**	16
Is Economic Independence Desirable?—By P. T. Bauer	20
Some Aspects of Third Five-year Plan—By A. M. M. Murugappa Chettiar	24
Industrial Development in India—By H. M. L. Williams	26
The Sugar Industry Goes Ahead—By S. K. Patil	28
Britain's Economic Progress and the Needs of World Development—By Harold Wilson, M.P.	32
Reflections on Our Economic Progress—By V. V. Giri	36
Pattern of Aid to Underdeveloped Countries in the Sixties—By Dr. William E. Schenk	38
The Economics of Six *Plus* Seven—By G. O. Hoskins	45
Prospects for Foreign Aid—By A. D. Shroff	46
Evolution of Monetary Policy in India—By S. L. N. Simha	48
Administrators in Independent India—By C. C. Desai, I.C.S. (Retd.)	56
Recipe for Success in Administration—By A. D. Gorwala	60
Productivity in Indian Banking—By C. H. Bhabha	62
The New Responsibility—By A Special Correspondent	65
Some Thoughts on Education in India—By A. T. Mathyoo	68
Raising Agricultural Production—By B. G. Rao, I.C.S. (Retd.)	73
Economic Position of Average Indian Today—By Dr. N. Das, I.C.S. (Retd.)	74
Reducing Inequality of Incomes—By K. Rangachari	76
Protection to Industries—By K. R. P. Aiyangar	80
Observations on Private Sector in India—By Dr. Henry H. Schloss	86
Prospects for Investors—By George Carvelho	92
Significance of Broader Shareownership—By G. Keith Funston	96
Growth of London Stock Exchange—By Sir Oscar Hobson	100
Growth and Reform of Stock Exchanges—By A. K. Sur	102
Scope of Stock Exchanges *vis-a-vis* the Corporate Sector in India—By Dr. Raj K. Nigam	106
Economic Trends in Britain—By Our London Correspondent	112
Some Issues of Monetary Theory and Policy in a Real Liquidity Conscious Economy—By Dr. P. R. Brahmananda	114
Financing India's Third Plan—Contributed	118
Railways in Second Plan—By Karnail Singh	122
Road Transport in Third Plan—By C. S. Nair	125
Aircraft Industry for India By Wing.-Commdr. R. Vaughan-Fowler, R.A.F. (Retd.)	127
Shipping Policy—Its Evolution and Progress—By M. A. Master	128
Collecting Agricultural Statistics in the U.S.—By S. R. Newell	131
Progress of Planning in Pakistan—By Dr. Anwar Iqbal Qureshi	134
Provident Fund Schemes for Industrial Workers—By S. N. Mubayi	138

	Page
FEATURE ARTICLES—*(Continued)*	
Industrial Relations in the Public Sector—By P. C. Jain	140
Industrial Relations—By Dr. J. N. Mongia	141
Trade Unionism in India—By Dr. J. L. Rastogi	143
Phenomenal Growth of Paper Industry—By Chimanlal P. Shah	145
Is Increased Taxation of Rural Sector Possible? By Prof. V. G. Ramakrishna Aiyar	148
People-to-Business—By Otto Schaler	149
Salient Features of Footwear Industry—By J. Vyoral	150
Dyes and Intermediates—By Jogindar Singh	152
Coal Production and Handling Practices in U.S.—By S. K. Majumdar	155
Import Control—Export Promotion—By Dr. S. P. Chablani	158
Foreign Trade under Five-year Plans—By K. Murti	162
Textile Machinery Developments in U.K.—By D. W. Hepburn	170
Trends in British Textile Industry—By Our Manchester Correspondent	172
Boom and Bust in Pepper—By Indraji T. Parekh	178
1960 REVIEW OF:	
Coal	182
Cotton	184
Textiles	186
Jute	191
Sugar	193
Planting	196
Food and Agriculture	200
Industrial Production	202
Prices and Cost of Living	205
Trade	208
Insurance	212
Banking and Money	216
TREND OF MARKETS IN 1960:	
Stock Exchanges	221
Bullion	226
Cotton	230
Oilseeds	232
Tea	236
Metals	238
Jute	240
Hides and Skins	242
CHAIRMAN'S SPEECH:	
Assam Sillimanite Ltd.	243

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INDEX TO ADVERTISERS

	Page
Advani-Oerlikon Electrodes Private Ltd., J. B.	63
Air France	97
Air-India International	7
Alcan Asia Ltd.	250
Alembic Chemical Works Co., Ltd.	249
Allahabad Bank Ltd.	144
All India General Insurance Co., Ltd.	189
Altex Private Ltd.	251
Aluminium Industries Ltd.	246
Amalgamated Electricity Co., Ltd.	253
Amalgamations Private Ltd.	67
Amar-Dye Chem Ltd.	255
Amritlal Ojha and Company Private Ltd.	173
Amrutlal Bhurabhai and Company	193
Andhra Bank Ltd.	189
Anglo French Textiles Ltd.	190
Anglo Thai Corporation Ltd.	249
Arathoon Private Ltd., A. M.	228
Asea Electric India Private Ltd.	95
Asher Textiles Ltd.	72
Ashok Leyland Ltd.	71
Assam Sillimanite Ltd.	196
Associated British Machine Tool Makers (India) Ltd.	*Front inside cover*
Associated Electrical Industries (India) Private Ltd.	213
Associated Textile Engineers	187
Atlas Engineering Industries	217
Atul Products Ltd.	*Back cover*
Avery Company of India Private Ltd.	12
Babubhai Narotamdas and Company	251
Baijnath and Company	161
Bajaj Electricals Ltd.	123
Balmer Lawrie & Co., Ltd.	101
Balvalli and Company, N. A.	253
Bank of Bankura Ltd.	224
Bank of Baroda Ltd.	82
Bank of India Ltd.	94
Bank of Maharashtra Ltd.	210
Bank of Nagpur Ltd.	204
Bank of New South Wales	245
Bank of Tokyo	203
Basanti Cotton Mills Ltd.	245
Bata Shoe Company Private Ltd.	154
Behar Firebricks and Potteries Ltd.	21
Belapur Co., Ltd.	5
Bengal Chemical and Pharmaceutical Works Ltd.	224
Bengal Coal Co., Ltd.	241
Bhor Industries Ltd.	245
Binny and Company (Madras) Ltd.	167
Binny's Engineering Works Private Ltd.	61
Bird and Company (Private) Ltd.	44
Bombay Andhra Transport Company	214
Bombay Dyeing and Manufacturing Co., Ltd.	101
Bombay Fine Worsted Manufacturers	117
Bombay Fire and General Insurance Co., Ltd.	239
Brady & Co., Ltd., W. H.	256
British Bank of the Middle East	152
Brooke Bond India Private Ltd.	158
Burma Lime and Chemical Co., Ltd.	211
Burmah-Shell	97
Cadbury-Fry (India) Private Ltd.	83
Calcutta Chemical Co., Ltd.	107
Calcutta Fan Works Private Ltd.	252
Calico Mills	237
Canara Industrial and Banking Syndicate Ltd.	219
Carborundum Universal Ltd.	173
Carona Sahu Company Private Ltd.	163
Cement Marketing Company of India Private Ltd.	2
Central Automobiles Private Ltd.	146
Central Bank of India Ltd.	217
Central Railway	157
Century Spinning and Manufacturing Co., Ltd.	215
Chimanlal Manchand and Company	135
Chimanlal Paper Company	44
Chloride and Exide Batteries (Eastern) Private Ltd.	181
Claridge & Co. Ltd., G.	6
Coffee Board	81
Coir Board	220
Commercial Bureau	167
Comptoir National D'escompte De Paris	183
Crompton Engineering Company (Madras) Private Ltd.	70
Dadabhoy Hormusjee and Company	173
Dahyalal Makanjee Zaveri	233
Dalmia Cement (Bharat) Ltd.	176
Dalmia Iron and Steel Co., Ltd.	170
Davangere Cotton Mills Ltd.	103
DCM Chemical Works	109
Devkaran Nanjee Banking Co., Ltd.	194
Devidayal Metal Industries Private Ltd.	136
Divecha Glass Works	207
Dodsal Private Ltd.	206
Dollar Company	219
Drewet Chowna and Company	181
Dunlop Rubber Company (India) Ltd.	39
East India Industries (Madras) Private Ltd.	234
Eastern Shipping Corporation Ltd.	224
Eck-Haubold and Laxmi Private Ltd.	248
Elphinstone Spinning and Weaving Mills Co., Ltd.	235
Employers' Liability Assurance Corporation	44
Engineering Export Promotion Council	213
Engine Valves Ltd.	233
English Electric Co., Ltd.	31
Express Block and Engraving Studios Private Ltd.	223
Fancy Corporation Ltd.	190
Favourite Bookcloth and Paper Mart	225
Fedco Private Ltd.	84
Ferro Alloys Corporation Ltd.	107
Fertilisers and Chemicals Travancore Ltd.	153
Forum of Free Enterprise	105
French Dyes and Chemicals (India) Private Ltd.	1
Gaekwar Mills Ltd.	207
Gammon India Private Ltd.	53
Garlick and Company (Private) Ltd.	213
General Electric Company of India Ltd.	103
Godrej and Boyce Manufacturing Co., Ltd.	215
Government Hydrogenation Factory	137
Government of Madhya Pradesh	239
Government of Maharashtra	209
Government of Rajasthan	115
Great India Net Industry	185
Greaves Cotton & Co., Ltd.	22
Habib Bank Ltd.	77
Hellenic Lines Ltd.	171
Hercules Insurance Co., Ltd.	194
Hindustan Construction Co., Ltd.	212
Hindustan Lever Ltd.	59
Hindustan Motors Ltd.	120
Hindustan Pilkington Glass Works Ltd.	55
Hindustan Rubber Works	249
Hindusthan General Insurance Society Ltd.	77
Hindusthan Mercantile Bank Ltd.	227
Hongkong and Shanghai Banking Corporation	171
Hukumchand Jute Mills Ltd.	217
Hyderabad Asbestos Cement Products Ltd.	247
Ibcon Private Ltd.	171
Imperial Tobacco Company of India Ltd.	93
India Brushware	210
India Cements Ltd.	209
India General Navigation and Railway Co., Ltd.	157
India Insulation Industries	65
India Machinery Co., Ltd.	37
India Paper Pulp Co., Ltd.	79
India Pistons (Private) Ltd.	33
India Potteries Ltd.	210
India Steamship Co., Ltd.	227
India Sugars and Refineries Ltd.	198
India United Mills Ltd.	211
Indian Airlines Corporation	111
Indian Bank Ltd.	4
Indian Copper Corporation Ltd.	159
Indian Furnace Company Private Ltd.	9
Indian Hardware Industries Ltd.	214
Indian Hume Pipe Co., Ltd.	214
Indian Iron and Steel Co., Ltd.	27
Indian Malleable Castings Ltd.	147
Indian Overseas Bank Ltd.	163
Indian Oxygen Ltd.	98
Indian Steelworks Construction Co., Ltd.	69
Indian Telephone Industries Ltd.	247
Indian Trade and General Insurance Company, Ltd.	*Front cover*
Indian Tube Company (1953) Ltd.	29
Indmag Private Ltd.	83
Indore Malwa United Mills Ltd.	177
Industrial and Engineering Apparatus Company Private Ltd.	235
Industrial Finance Corporation of India	160
Investa Machine Tools and Engineering Co., Ltd.	185
James Finlay & Co., Ltd.	79
James Mackintosh and Company Private Ltd.	183
Jardine Henderson Ltd.	124
Jay Shree Tea and Industries Ltd.	104
Jeewanlal (1929) Ltd.	219
Jessop & Co., Ltd.	75
Jivanlal and Company (Cal.) Private Ltd., N.	167
J. K. Steel Ltd.	188
Kabbur Private Ltd., S. K.	227
Kalinga Tubes Ltd.	203
Kamani Engineering Corporation Ltd	220
Kannan Devan Hills Produce Co., Ltd.	35
Karamchand Thapar and Brothers Private Ltd.	252
Karur Vysya Bank Ltd.	234
K.C.P. Ltd.	197
Khandelwal Brothers Private Ltd.	66
Khandelwal Manufacturing Corporation Private Ltd.	189
Khanna, J. S.	3
Khatau Makanji Spinning and Weaving Company, Ltd.	163
Kilburn and Company Private Ltd.	43
Killick Industries Ltd.	47
Kirloskar Brothers Ltd.	64
Kirloskar Oil Engines Ltd.	192
Kooverji Devshi and Company Private Ltd.	157
Kuljian Corporation	119
Kusum Engineering Co., Ltd.	233
Lakshmi Vilas Bank Ltd.	251
Lallubhai Amichand Private Ltd.	99
Larsen and Toubro Ltd.	19
Laxmi Sprinklers	190
Life Insurance Corporation of India	169
Lipton (India) Ltd.	207
Lloyd Triestino	87
Machine Tools India (Private) Ltd.	151
Machine Tool Traders	253
Madras Pencil Factory	137
Madras State Handloom Weavers' Co-operative Society Ltd.	204
Mafatlal Gagalbhai and Company Private Ltd.	10
Mahalaxmi Transport Private Ltd.	34
Maharashtra State Co-operative Bank Ltd.	207
Maharashtra Sugar Mills Ltd.	194
Mahindra and Mahindra Ltd.	105
Man Industrial Corporation Ltd.	85
Martin Burn Ltd.	23
McLeod & Co., Ltd.	121
Mercantile Bank Ltd.	159
Mettur Chemical and Industrial Corporation Ltd.	246
Millen and Company (India) Private Ltd., R. K.	91
Mitsubishi Monsanto Chemical Co., Ltd.	237
Mitsui Bank Ltd.	247
Mohini Mills Ltd.	246
Morarjee Goculdas Spinning and Manufacturing Co., Ltd.	81
Motor Industries Co., Ltd.	194
Mysore Chemical Manufactures Ltd.	64
Mysore Electro Chemical Works Ltd.	153
Nanabhoy and Co., R.	153
Narotam and Company, C.	165
National and Grindlays Bank Ltd.	209
National Insulated Cable Company of India Ltd.	118
National Iron and Steel Co., Ltd.	241
National Rayon Corporation Ltd.	175
National Rubber Manufacturers Ltd.	239
National Small Industries Corporation Ltd.	156
National Sugar Mills Ltd.	204
National Tiles and Industries Private Ltd.	90
Netherlands Trading Society	197
New Haven Steel Ball Corporation Private Ltd.	72
New India Assurance Co., Ltd.	214
New India Industries Ltd.	254
New Swadeshi Mills of Ahmedabad Ltd.	220
Noble Paint and Varnish Company Private Ltd.	177
Orient General Industries Ltd.	84
Oriental Gas Co., Ltd.	235
Orient Paper Mills Ltd.	121
Oriental Metal Industries Private Ltd.	187
Pallonji and Company Private Ltd., M.	161
Parry & Co., Ltd.	133
Peirce Leslie & Co., Ltd.	232
Phaltan Sugar Works Ltd.	229
Philips India Ltd.	161
Podar Mills Ltd.	229
Polychem Ltd.	133
Premier Automobiles Ltd.	201
Punjab National Bank Ltd.	213
Radio and Electricals Manufacturing Co., Ltd.	250
Raghuvanshi Mills Ltd.	87
Raja Bahadur Motilal Poona Mills Ltd.	203
Rallis India Ltd.	245
Ramjilal Lakhmichand	233
Ram Kumar Agarwala and Brothers	137
Rane (Madras) Ltd.	223
Ravalgaon Sugar Farm Ltd.	223
Rayalaseema Mills Ltd.	199
Ruby General Insurance Co., Ltd.	197
Ruby Rubber Works Ltd.	204
Sahu Jain Ltd.	57
Saru Smelting and Refining Corporation Private Ltd.	190
Scindia Steam Navigation Co., Ltd.	84
Sen and Pandit Private Ltd.	123
Shalimar Paint Colour and Varnish Company Private Ltd.	49
Shalimar Rope Works Ltd.	249
Shethia and Company Private Ltd., S. D.	77
Shree Digvijaya Woollen Mills Ltd.	201
Shree Ramtirth Yogashram	219
Siemens Engineering and Manufacturing Company of India Ltd.	195
Silk and Rayon Textile Export Promotion Council	247
Simplex Mills Co., Ltd.	252
Simpson & Co., Ltd.	185
Simon-Carves Ltd.	8
Singareni Collieries Co., Ltd.	165
Sivanandha Mills Ltd.	228
SKF Ball Bearing Company Private Ltd.	17
Skoda (India) Private Ltd.	243
Sooreniji and Company, M. K.	11
South Behar Sugar Mills Ltd.	228
South British Insurance Co., Ltd.	64
South India Insurance Co., Ltd.	159
South Indian Bank Ltd.	201
Spencer & Co., Ltd.	210
Sree Meenakshi Mills Ltd.	186
Sree Ram Mills Ltd.	109
Standard Motor Products of India Ltd.	199
Standard Tool Company	187
Standard-Vacuum Oil Company	41
Star Paper Mills Ltd.	96
State Bank of Hyderabad	248
State Bank of Mysore	198
State Bank of Travancore	220
State Commercial Bank	246
Statistical and Accounting Machines Private Ltd.	89
Steelman's Corporation	237
Stoneware Pipes (Madras) Ltd.	250
Sundram Iyengar and Sons Private Ltd., T. V.	51
Surajmal Lallubhai and Company	72
Swadeshi Cotton Mills Co., Ltd.	115
Tata Engineering and Locomotive Co., Ltd.	117
Tata Industries Private Ltd.	99
Tahira Industries (India) Private Ltd.	95
Textile Machinery Corporation	248
Textool Company Ltd.	113
Thackersey Group of Mills	183
Thomas & Co., Ltd., A. V.	198
Tokyo Shibaura Electric Co., Ltd.	*Back inside cover*
Toshniwal Brothers Private Ltd.	119
Trade Representation of the German Democratic Republic	113
Travancore-Cochin Chemicals Ltd.	227
Tube Investments of India Ltd.	93
Tulsipur Sugar Co., Ltd.	224
Union Bank of India Ltd.	223
Union Co-operative Insurance Society Ltd.	175
United Bank of India Ltd.	237
United Commercial Bank Ltd.	148
United India Fire and General Insurance Co., Ltd.	198
Victoria Mills Ltd.	175
Vibgyor India Private Ltd.	217
Vithal Purshotum and Sons Private Ltd.	165
Voltas Ltd.	25
Vysya Bank Ltd.	228
Walchandnagar Industries Ltd.	121
Western India Plywoods Ltd.	209
Western Railway	181
William Jacks & Co., Ltd.	89
Williamson Magor & Co.	248
Workshop Engineering and Equipment Company	235
Zenith Tin Works Private Ltd.	177

1960 Disappoints the World

BOTH politically and economically, A.D. 1960 has not been as good as one had hoped it would be when it was ushered in, and is ending on a note of uneasiness. The year began promisingly, with the cheerful prospect of a distinctly better understanding between the major power blocs in the West and the East. Mankind had set great store by the Summit Conference at Paris between the leaders of N.A.T.O. powers and of Russia, but, by a strange quirk of fate, the Summit was not reached at all and the carefully prepared plans ended in fiasco. Even the strenuous attempts that were subsequently made by Prime Minister Nehru to close the breach between the U.S. and Russia failed to yield the desired result. The widespread speculation earlier in the year that a serious rift was developing between Russia and China and that the growing might of China would serve as a powerful incentive to Russia to settle its differences with the West has turned out to be mere wishful thinking. The Moscow meeting of Communists in the closing weeks of 1960 has demonstrated beyond doubt that it is useless to bank on a clash between these two Communist giants for preserving the democratic way of life in the world. Whatever may be the differences between them, they seem to be realistic enough to remember that in their unity lies their strength and the future of international Communism. Actually, the Communist powers, it would appear, have closed their ranks and are determined to spread their ism to more lands. The world is thus still as hopelessly divided as before; peace is more elusive than one had thought and, consequently, an acute sense of exasperation has come to prevail in the free world. It is only the continued progress made in the discovery and production of more and more powerful weapons of destruction by the big powers that is keeping this globe together, compelling them to talk about the need for making fresh efforts to solve their differences and find a basis for peaceful co-existence. As these lines are written, in the new year, the only new principal actor on the stage will be Mr. John F. Kennedy, the newly elected U.S. President. Will Providence be more kind to him than it has been to President Eisenhower?

The infructuous Paris Summit alone has not been the cause of despair in the free world. The growing political instability in a number of newly independent countries and the advent of autocracy in a few more countries are also equally responsible for this feeling. There is not a single Continent in the world which does not have a trouble spot. Algeria, Cuba, Ceylon, Congo, South Africa, Rhodesia, Laos, Indonesia, Formosa and Nepal, to mention only some, are all scenes of small fires of varying degree, any one of which may ignite a bigger fire or even a worldwide conflagration, the keenness of big powers to avoid it at all cost notwithstanding. Even more serious is the continued bellicosity of China, which is bent upon foisting Communism on India, with the silent consent of Russia. The only silver lining in the political cloud is the steady improvement in the relationship between India and Pakistan. Although such is not as cordial as one would desire, the feeling of suspicion and hatred is gradually yielding place to an intense longing for understanding and amity. The area of differences between the two is being narrowed down and the year now passing into history saw the removal of one of the biggest stumbling blocks to peace on this sub-Continent, namely, the dispute over the sharing of rivers in the Indus Basin. Credit for this development goes not only to the leaders of India and Pakistan but also to those of the free world, the very people who are dubbed as imperialists and colonialists by the propagandists of Moscow and Peking.

As in the political sphere, so also in the economic, a feeling of uncertainty and unhappiness prevails. To a very considerable extent, this impression is the outcome of political misgivings. In the West, the latter are chiefly international in character, while in the East they are both national and international. It may sound trite when it is said that there can be no economic prosperity unless political instability is ended. But it needs reiteration, because it is a basic prerequisite for material progress. The experience of 1960 is a clear reminder of this truth. Fundamentally, all the relevant economic indicators go to show that, in the past twelve months, the world fared better than it did in 1959. Yet, there is no sense of satisfaction. It is so because much more was expected to be achieved in 1960. And the main cause for the slowdown in the pace of economic growth is to be traced to political disappointments and disruptions. This is particularly true of underdeveloped countries and the first thing that the powers-that-be in these countries ought to do in the New Year, if they are to serve the interests of the masses, by whom they swear every time they introduce some socio-economic reforms of a dubious kind, is to ensure a stable Government by firmly dealing with fissiparous tendencies.

The fundamental data pertaining to world economy in 1960 show no setback. Production, employment, consumption, *per capita* income, trade, export of capital and economic aid, to mention only a few, were all higher than in 1959 which itself was a relatively better year than 1958. In almost every country, people worked harder and industrial unrest resulting in strikes was of very modest proportion. Consequently, industrial production went up all round. In most parts of the world, Nature, too, was bountiful, so that output of agricultural and farm products remained satisfactory. So people had more of everything: food, clothing, houses, cars and other consumer durables. And, what was more, they had more money, too. Since Governments of every worthwhile country exercised vigilance over price levels and took care to keep inflation under check through monetary measures and restraint on public expenditure, the rise in cost of living was only small. In other words, there was actually an improvement in living standards. This at any rate was the position of developed countries, including Soviet Russia. So far as underdeveloped countries are concerned, the general trend was not different, though the rate of progress, especially in the more populous countries, was not keeping pace with the growth of population. It was only towards the close of the year that there were signs of a slackening, especially in consumer durable industries. In the U.S., in particular, employment was not expanding fast enough to absorb all the additions to labour force. The position was a shade similar in the U.K. and Canada. But on the whole, these slight setbacks were not such as to deserve being described as recession. It would be more appropriate to say that there was only a slow-down.

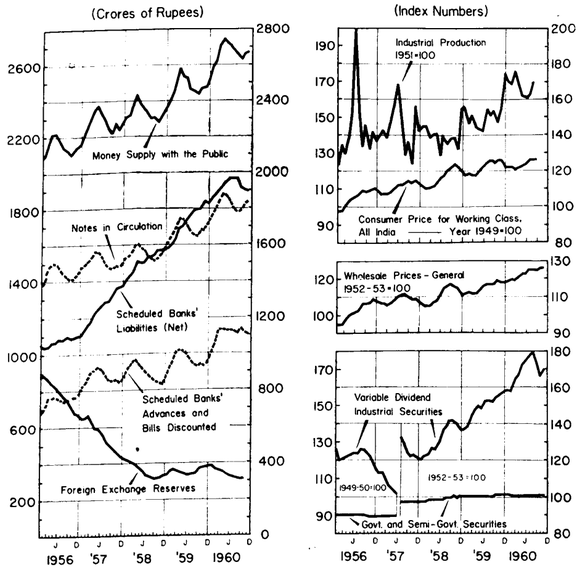
Economic activity in the developed countries is undoubtedly at a high plateau. Their hardships, if any, are chiefly psychological. There is at least some justification for the sense of dissatisfaction in the U.S., where the population growth is fairly high and the economy is feeling the strain of the defence burden of the free world. The fear of Russia overtaking it in the economic race and the anxiety to keep ahead of its opponent, however, tend to aggravate the reaction to any slow-down or setback in the rate of economic growth and exaggerate its significance. But there is no reason for such dissatisfaction so far as the West European countries are concerned. In addition to full employment and rising living standards, their external balance of payments position is strong. And yet they grouse and are competing with one another in stepping up their domestic investments. Britain, for instance, compares itself with W. Germany and feels that it is lagging behind. Similarly, France wants to do better than both Britain and Germany. As for Germany, bitter experience of inflation twice in one generation and the desire to provide full cover against future contingencies are the motives for tightening its purse strings and for strengthening its economy further. The result is overinvestment in domestic spheres and a further widening of the gap between the living standards in the developed and underdeveloped countries.

A disturbing feature of the year was the increase in the flow of gold from the U.S. This was due partly to the rise in deficit on U.S. balance of payments and partly to doubts about the ability of the U.S. to maintain the external value of the dollar without straining its domestic economy and compromising on its foreign economic policies. The European countries, which had profited by the huge economic aid from the U.S. in the post-war years and which are even now receiving large sums by way of defence assistance, feared that they would be called upon to make sizable sacrifices for sustaining the strategy of the West against Communism and also accept a certain amount of cut in the U.S. offshore expenditure. Several of the U.S. partners in the West were, therefore, in a hurry to convert a part of their dollar balances into gold. The international financiers, who miss no opportunity to fish in troubled waters, ran the dollar down by speculating heavily in the London gold market. The underdeveloped countries, too, were worried that Uncle Sam might not be able to help them to the extent they had hoped and that the West European countries might not be as generous as the U.S. in rendering aid to their economic progress. As 1960 draws to a close, there are signs that these misgivings may turn out to be true partly at least. The U.S. has already reduced its military expenditure abroad, cut the quantum of untied loans to the developing countries, and Western Europe is profuse more in verbal sympathy with the plight of underdeveloped countries than in action in the form of long-term aid. It is becoming increasingly clear that aid from Western Europe will mostly be in the form of commercial loans and not grants.

Generally speaking, the primary producing countries had another uncomfortable year. The two continuous years of unbroken prosperity to the West, unaccompanied by any inflationary price increases, has not yielded any distinct or comparable improvement in their lot. Barring a few individual commodities such as rubber and tin, the prices of commodities in general are distinctly lower over the year. The primary producers have, therefore, lost ground; their exports have weakened and so also their capacity to import. Consequently, European exports are bound to slacken sooner or later. As the U.S., too, is determined to maintain the integrity of the dollar, European countries will find it hard to keep up their exports to the U.S. also. On the contrary, they are likely to be confronted with keen competition from that country in other export markets. Some of them have already found it necessary to cut prices of basic chemicals, petroleum products and consumer durables. The benefit of this trend for underdeveloped countries, however, is unlikely to be perceptible, unless it spreads to include plant and machinery also.

Economic trends in India during 1960 are described in detail in the

INDIA'S MAIN ECONOMIC INDICATORS



annual review articles that are published in this Number. In summary, it can be stated that they were similar to the world trends in several respects. Industrial production was higher and capacity got broad-based as more and more industrial projects came to fruition. There were fewer industrial disputes. Employment opportunities, especially in technical branches and top managerial sections, increased. Agricultural production was lower in the 1959-60 crop year, but there are signs that it will be significantly higher in the 1960-61 crop year which is already half-way through. The monetary situation was well under control, thanks to the vigilance exercised by the central banking authority. Price levels moved up quite sizably, but this was not without a redeeming feature, in that prices of food articles remained relatively stable. The increases took place mostly in raw materials, caused by shortfall in production, and also in manufactured goods reflecting the rise in raw material costs and in the wage bill of a number of industries. The cost of living went up by only a fraction, in refreshing contrast to the unhappy experience in the previous three years. The Central Government took great pains to see that price levels did not shoot up. It cajoled and coerced business men to cut down their profit-margins, with partial success. Speculation, however, was rife in all the forward markets, including stock exchanges and bullion, resulting in a sharp rise in prices, but diminished considerably towards the close of the year. Government revenues were buoyant, though its borrowing programme was not quite successful. The private sector, however, could raise all the capital it wanted, and that too in the form of ordinary shares, as investment in equities received a fresh impetus. The only major difficulties were scarcity of foreign exchange, in the face of sluggish exports and sharp rise in imports, and shortage of coal, especially coking coal, which served as a severe handicap to iron and steel and a number of other industries.

India is confronted with quite a few formidable difficulties as the 1960 calendar is about to yield place to the 1961 calendar. In the political sphere, the forces of disunity and disruption, namely, linguistic parochialism, communalism, casteism and nepotism, are still strong, with communists and other political opportunists trying to exploit them to further their own interests. While the top leaders of the party in power are fully aware of this danger, they have not been successful in eradicating them. In the economic sphere, it would have been possible to strike a note of optimism but for the high level of domestic prices in relation to world levels and the continuing shortage of foreign exchange even for taking care of "maintenance imports," that is, imports of raw materials, fertilisers, stores, spares, plant and machinery, which are necessary for utilising the country's industrial and agricultural capacity to its fullest extent. This shortfall is approximately Rs. 200 crores per annum and the prospect of covering it through increased exports is bleak, what with shortage of raw jute, only a small surplus of vegetable oils with prices well above world parity and increasing competition in cotton textiles, as well as in tea and spices. The cumulative effect of the Government's blunders in economic policy, planning and action in the past ten years and of the failure to bring about a dynamic revolution in agricultural practices is also beginning to make itself felt strikingly in the form of shortage of fuels, raw materials, clothing, housing and transport facilities, which, in turn, has a restraining influence on the rate of increase in production. There is, however, one compensating development, which, if wisely availed of, will enable the country to retrieve the situation at least to some extent. And that is the recovery in agricultural production, especially of foodgrains, raw cotton and sugarcane. The authorities must use this opportunity to bring down price levels to the extent possible, so that at least the cost of living can be lowered. Speculative forces should be given no quarter and respect for the value of money must be consistently fostered. More realism and foresight than one has seen in recent months are required for tackling the bottlenecks to production.

"Commerce" Completes Fifty Years

Story of financial journalism in India

[COMMERCE *has just completed fifty years of uninterrupted publication—a period which happens to form the larger part of the span of Indian financial journalism which was born in 1888. This occasion is now commemorated by* COMMERCE *in two ways—one by publishing its 1960 Annual Number as the Golden Jubilee Number and the other by this rapid survey of financial journalism, in general. What follows is not a detailed historical narrative, but a broad estimate of the origin, purpose, progress and present state of financial journalism in its social-historical perspective. Absolute objectivity is not claimed for this estimate, for absolute objectivity, like absolute freedom, is an impossible ideal. While the reader will appreciate our natural desire to deal, at some length, with the contribution of* COMMERCE *to Indian financial journalism, he may also recognise that an effort has been made to bring out, as objectively as possible, the role played by financial journalism as a whole.*—ED.]

INDIAN financial journalism is more than fifty years old, for it may be said to have been born in 1888, when a restless, enterprising and far-sighted Englishman, Shirley Tremearne (1848-1923), founded *Capital* in Calcutta and edited it for a number of years thereafter, with distinction and dedication. It was not entirely fortuitous that financial journalism, like the nationalist movement, reflecting, as it did, the needs and aspirations of the emerging Indian *bourgeoisie*, was sponsored by some Englishmen themselves as much with foresight as out of enlightened self-interest. And, again, it was not altogether surprising that Tremearne, with his characteristic frankness and forthrightness of language, described his venture as "A weekly commercial paper devoted to the interests of capitalists and employers of labour." While financial journalism, in general, comprising the leading weeklies and the financial and commercial sections in the dailies, has up till now answered to Tremearne's description, it is significant of our times that its purpose cannot be proclaimed in such straightforward and forthright language now; it has to be modified in more ways than one. The reason for this state of affairs is not far to seek: it is the impact of, and the challenge posed by, Communism which has woven the concepts of the Welfare State into the texture of financial journalism in India and effected a silent revolution in the attitude of private enterprise. What financial journalism, by and large, seeks now is an honoured and appropriate place for private enterprise in a mixed economy subjected to overall planning. Whatever be the political undertones or overtones of individual financial papers, the fact remains that financial journalism has, on the whole, stood for a reasonable amount of freedom to private enterprise as much in the interests of sustaining democracy as in those of drawing out its potentialities for public good. The years immediately ahead may not unfold a different story, for, with the imminent addition of two full-fledged dailies to the financial Press, its vital and basic goals may remain very much the same as in the last fifty years—a period coeval with the life of *Commerce* which is celebrating its Golden Jubilee through this Annual Number.

"Capital"

Capital naturally claims first attention in this story (which here is confined, in the main, to the five leading financial weeklies, namely, *Capital*, *Commerce*, *Indian Finance*, *The Eastern Economist* and *The Economic Weekly*, in the order of the age of each paper), since it was founded 22 years earlier than *Commerce*. This earlier period, which for that journal was one of steady growth in a field free from competition, laid the foundation for a vigorous and independent approach on its part to economic and financial problems. Although it was wholly under British ownership and management —it continues to be so to this day— *Capital* did not take a narrow view of the interests of British business in this country. Its "very ordinary and orthodox declaration of faith" in "the intellectual position and value of the capitalist classes" was as natural in the spacious days of the Victorian and Edwardian eras as in the earlier phase of the Indian *bourgeois* revolution. Only, in the latter case, it was an intelligent anticipation of the needs of the then nascent capitalistic enterprise in India. *Capital*, particularly in the years of Tremearne's editorship, also gave no rest or peace to the Indian Civil Service whose ways it criticised very much in the same way as bureaucratic inroads into the economy are criticised now in the context of planning. Mr. Tremearne's hard-hitting remark once "that Messrs. Ralli Brothers have done more for the advancement of this country than all the Indian Civil Service rolled into one" may well be repeated, *mutatis mutandis*, today and applied to a vastly bigger Civil Service which mistakenly believes that it is delivering the goods in the era of planning. Again, the ease with which *Capital* handled financial subjects in those days was something amazing; especially Mr. Tremearne's contribution to the rupee ratio controversy of his time is, in the words of Geoffrey W. Tyson (who, as editor of that paper, wrote in its Diamond Jubilee Number of 1948), "illuminating after sixty years and germane to a problem that is for ever revealing some new facet."

Ever since Tremearne's days, *Capital* has taken pride in its being "essentially a British paper," and it has been edited by a succession of able British editors. Though the big British managing agency houses in India had acquired a share in its ownership in the early 'thirties, it has continued to enjoy "the maximum amount of editorial and managerial independence compatible with the responsibilities of ownership" and to work for the larger interest of promoting Indo-British trade, commerce, industry and finance. It has lived up to its reputation as the pioneer in India in the field of financial journalism by continually striving "to provide the best possible fare for its readers" and "to improve its service of news and the presentation of its views." Its distinctive feature, "A Ditcher's Diary",—which introduced as early as in 1912 a more personal touch into Indian journalism—has continued to be popular to this day, although it is not so very sparkling as it was in the period 1912-28, when the then editor, Pat Lovett, wrote it.

It must also be said to the credit of *Capital* that it was the first to recognise the need for a research and statistical department of its own. *The Capital Index of Industrial Activity in India*, which first appeared in 1935, the *Capital Stocks and Shares Index* which first appeared in 1937 and the *Capital Middle Class Cost of Living Index for Calcutta*—to mention only three —have been maintained by this research department and published at regular intervals in the weekly. It has also been regularly publishing Annual Supplements for the last 32 years, reviewing the progress made in different branches of industrial and associated activity in the preceding twelve months. Above all, since Independence, *Capital* has been generally constructive and helpful in its editorial criticism of Government's economic and financial policies, although, on occasion, it has come down heavily on "ideological" pursuits in industrial planning, especially since the present editor, Mr. George Barrell, took over.

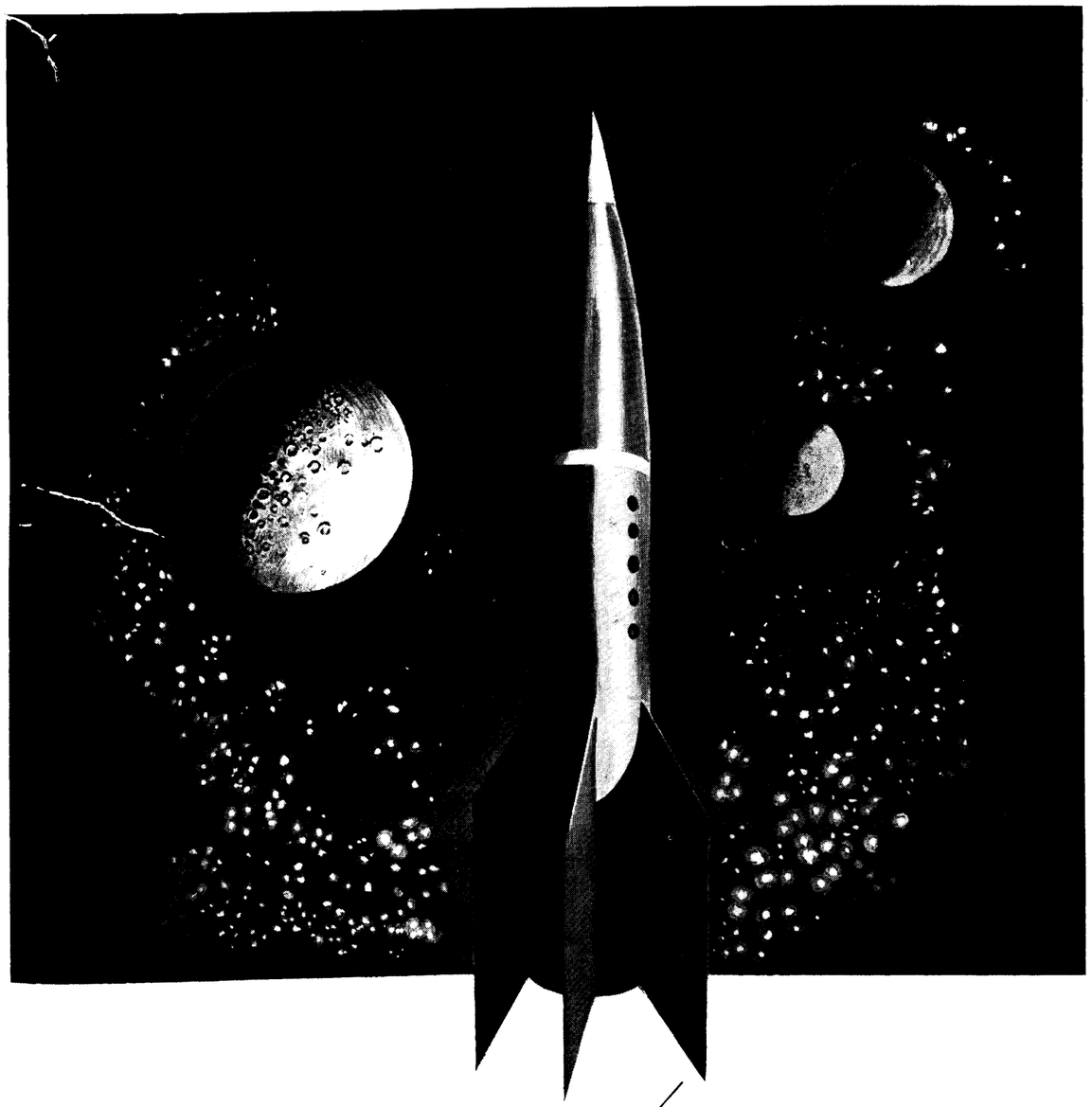
"Commerce"

Immediately younger to this Calcutta contemporary is *Commerce* which was founded in 1910—the year in which King George V ascended the throne in Great Britain—and passed its youth in that city till 1935, when it moved to Bombay. Its first Bombay issue was dated 6th April 1935, in which it introduced itself to the City's commercial audience in the following dignified manner:

"However useful and fruitful, the career of a newspaper in India is always beset with difficulties. The course of it, like that of true love, never runs smooth. Hence continued and uninterrupted existence for a quarter of a century is an achievement of which any newspaper, at least in this country, may be legitimately proud. *Commerce* has such a glorious record behind it. Started in 1910 by, among others, the late Mr. A. J. Fraser Blair, and nursed and matured from its very beginning by Mr. A Barrie Brown, who retired in April last, *Commerce* has gone from strength to strength...."

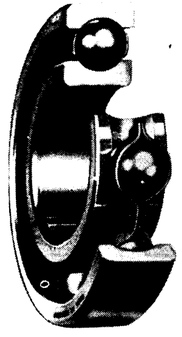
Although *Commerce*, like *Capital*, was the child of British enterprise, it was never a "British journal" in the sense in which the latter claimed itself to be. In fact, *Commerce* described itself from the beginning as "A Weekly Review of Indian Financial, Commercial and Industrial Progress" and has continued

Footnote: Words within inverted commas in the section on *Capital* are those of Mr. Geoffrey W. Tyson wherever his name is not specifically mentioned.



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ever since to accord primacy to, and plead actively for, "Indian" progress in the commercial and industrial spheres. This journal, in so far as its original purpose was concerned, represented a further advance in the direction of British recognition of the growing strength and vitality of Indian nationalism in matters commercial, industrial and financial. This statement, made without any fear of contradiction, can be easily corroborated by three quotations from the earliest issues of *Commerce*. In the editorial columns of its issue of 4th January 1911, for instance, were written the following forthright sentences:

"Indian industries have been ruined by free trade—that is a fact which it would be a very bigoted free trader who would deny... the economic and industrial condition of India today is a witness to the hideous wrong which it is possible to inflict upon a fiscally dependent country by riding any economic theory to death. Nor can India hope for a real revival of prosperity until the fiscal bonds now chafing her are loosened, if not cut altogether."

In the same issue, another editorial on Indian industries expressed its thorough agreement with the view that "capitalists (in India) must be assured of at least 3½ to 4 per cent. on their outlay, and that, industrially new as India is, a certain amount of dry-nursing has to be done and a great deal could be done in this direction by granting bounties, or even preferential duties." In the same year (1911), in the issue of 26th April, *Commerce* wrote on the Tata Iron and Steel Works then under construction and refuted expert criticism in the following prophetic manner:

"It has been contended by some of those who are supposed to know, that the climatic, geological and physiological conditions of India are inimical to an undertaking of this character. There are, undoubtedly, many serious difficulties still to be faced; but these, we contend, are not insuperable, for our motto is, in this as well as in other industrial matters, 'What Japan and China have done so can India do.'"

Enough has been said by way of these quotations to show that *Commerce* had a clear vision and foresight in championing the cause of Indian industrialisation and approaching the question in a vigorously pragmatic way. This pragmatic approach, eschewing theoretical or ideological considerations, has continued to this day to be a distinctive characteristic of *Commerce* —something in which it takes just pride.

Pragmatic Approach

This pragmatic approach, which involves examination of the practical consequences of fiscal, financial and economic policies in terms of higher or lower production, of human welfare, etc., has always come all too easily to a paper which has been in continuous touch with the "beehive" of commerce in the City of Bombay. To a large extent, the economics of the market place has contributed to its pragmatic approach. The trends in the money, the stock and share, the bullion and the commodity markets have always been conditioned, in the ultimate analysis, by official policies in fiscal, financial and planning matters. If these trends are deleterious in the sense of undue credit expansion leading to inflation, or of a fall in the value of equity shares reflecting the difficult state of corporate finances in the wake of unwise taxation, or of a spurt in commodity prices leading to a spiral of cost-wage inflation, they would need to be closely examined. In so examining them, the practical consequences of financial mismanagement become apparent; in making them apparent, appropriate measures for changing or modifying wrong policies, which have been proved as such in the market place as elsewhere, also suggest themselves.

With this approach, this journal has generally stood for conservative, but judicious, financial procedures, so that the pitfalls of inflation could be avoided as much and as far as possible. Its advocacy of "dear money policy," for instance, is in keeping with the conservative tradition of banking which cannot afford to be anything other than sound. While this policy has a logical consistency of its own, it has had to be modified to the extent that it cannot be implemented in isolation from the Government's general economic and planning policies. Since *Commerce* has always recognised the need for planning and for a measure of public enterprise especially in the "infrastructure," it has contented itself with, and taken pride in, a forthright presentation of the views of enlightened sections of private enterprise on all higher policy matters in the light of their practical effects, actual or potential, on further growth and expansion of private enterprise within the limits of the given mixed economy. Its pragmatic approach, though at times critical of official policies or of the public sector, has oftentimes been accompanied by practical alternative proposals for consideration by the powers-that-be.

Unfortunately for this country, many of its suggestions were not accepted by the National Government, as those who were in charge of it were too devoted to their pet ideological fads and fancies to be able to appreciate them. Its plea for realism was scoffed at by stressing the need for dynamism, a popular expression with the powers-that-be in those days, and by pointing out that only the public sector was capable of dynamism. Had the points of view urged by this journal been accepted, India's economic growth by now would have been greater and at a lower cost than has actually been the case. Numerous instances of its observations can be recalled, but the following few will suffice to support the point made here:

(1) This journal had strongly supported Tata's plan for expansion of steel industry shortly after independence and opposed the Government's negative policy, namely, that all further expansion of steel should only be in the public sector and that the future of existing iron and steel companies would be decided after 10 years. Refusal to listen to this criticism has cost the country heavily in terms of foreign exchange, rupee finance and shortage of steel which has retarded the growth of engineering industries.

(2) The defects in the attitude adopted towards the coal industry, dividing the expansion programme between the private sector and the public sector, without taking account of the latter's capacity, were clearly and consistently pointed out by this journal. The Government's failure to appreciate this criticism till a few weeks ago has led to severe scarcity of coal, resulting in loss of production in several sectors of industry and an addition to the fuel bill of railways.

(3) The dog-in-the-manger policies of the Ministry of Oil and Minerals were brought out in no unmistakable terms and so also the advantages in allowing the existing foreign oil companies to develop the petroleum industry. If the Government had listened to this advice, the country would be richer in foreign exchange alone to the tune of Rs. 250 crores, not to mention the other benefits.

(4) The Government was advised to give active encouragement to automobile industry in the private sector and foster amalgamation of the existing manufacturers in such a way as to make them more economically viable. As a result of dillydallying by the authorities on this vital issue, the automobile industry is still in the doldrums. In order to cover up the unpleasant effects of its unwise policy, the Government is holding out wild promises of a small car for people in the middle-income group within two years from now. Meanwhile, local bus and mofussil transport services have to be curtailed for want of stores and spare parts.

(5) The reservation of markets for handlooms and the numerous restrictions placed on modernisation, as well as expansion, of cotton textile mills were criticised in no uncertain terms as being retrograde steps for which the people would have to pay dearly. The validity of this criticism has been proved beyond doubt by the passage of time. The recurring cloth famine and reintroduction of controls of a dubious nature are the direct outcome of the Union Government's defective textile policy. Another outcome of this policy is the loss of India's dominant place in the world trade in textiles to other countries. There is no parallel in modern history to this economic folly of the Government of India. The country is yet to see the final outcome of this policy which will be far worse than its experience so far, unless there is a quick return to realism.

(6) Participation of foreign private capital in the development of overseas shipping was advocated by this journal. While the Government was inclined to consider this suggestion, the majority of private enterprise in shipping opposed it tooth and nail, invoking out-of-date slogans, to which, surprisingly enough, the powers-that-be fell a prey. The result is stunted growth of Indian shipping, fewer opportunities for employment to young men of moderate education and heavy drain on India's export earnings by way of freight payments to foreign shipowners.

International Relations

Indeed, *Commerce* had consistently held the view that the scope for participation of foreign private capital in India's economic development was greater than that conceded by the spokesmen of Indian industrialists. Till almost the beginning of the second Five-year Plan: this view was unpopular with a considerable section of the national private sector. The spirit of *Swadeshi*, which was quite pertinent during the days of the country's struggle for Independence from alien domination, persisted for an unduly long period after Independence. In fact, on this issue, the Government was more progressive in outlook than the private sector and appreciated *Commerce's* point of view. Similarly, at a time when a large section of the Indian business community, as well as politicians, was unnecessarily suspicious of the moves of the Western world to establish the World Bank, the International Monetary Fund and the G.A.T.T., this journal warmly welcomed them and advised India's prompt and active participation in these international institutions. Even so late as in the early fifties, the leading representative organisation of the Indian business community wanted India to withdraw from the G.A.T.T., but its suggestion was opposed by *Commerce*. Subsequent events have fully borne out the correctness of its vigorous stand on India's international economic relations.

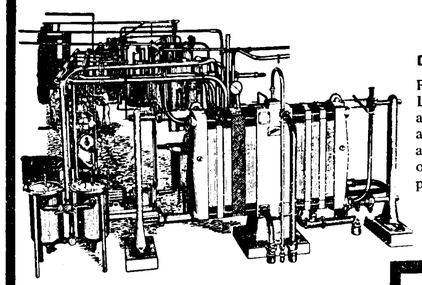
During the last years of World War II and early post-war years, when the British Press vociferously demanded scaling down of India's sterling balances on specious grounds, this journal did not hesitate to sound a note of warning to Britain that, if its Government succumbed to that unwholesome pressure, India would be fully justified in expropriating British private investments to the extent necessary, a warning which was resented by *Capital*, our Calcutta contemporary. Fortunately for Indo-British relations, the British Government had more sense than the British Press. At the same time, *Commerce* did not grudge the necessity for spacing out withdrawal of sterling balances in view of Britain's post-war difficulties and in the larger interests of the sterling area of which India is a part even today. Nor had it any doubt at any time in the capacity of Britain to repay India's sterling balances to the last farthing, a confidence which, as events have shown, has not proved to be of a misplaced variety.

Distinctive Features

Nothing will be easier than a recapitulation of our own writings and that, too, in a manner designed to highlight what we consider, with pardonable pride, as our contribution to the well-being of the country. But that is not the purpose of this article. Nor is it necessary. Only, we would like to add that the growth of *Commerce* to its present pre-eminent position in the field of financial journalism has been due not only to its severely pragmatic (and generally non-political) approach—which, at times, has been mistaken for a cold and hard-headed capitalist approach—but also to some of its distinctive features like the "Market Gossip," "Off the Record" more recently replaced by "On the Arena," a feature meant for tackling current economic and social problems in a lighter vein, the detailed analysis of company accounts, and the sections dealing with the money, stocks and shares, bullion and all major commodity markets. Special mention may also be made of the systematic encouragement the journal has given to innumerable economic writers from the academic, official and commercial worlds by publishing their learned contributions as special studies, in spite of their widely divergent views or conclusions and irrespective of whether they have been in conformity with its editorial policy or not. By itself, the journal has also provided an intelligence service, as it were, in its special sections dealing with banking, insurance, textiles, jute, planting, coal, sugar, engineering, transport, trade, agriculture, etc. All critical or analytical writing done in *Commerce* involves a certain amount of concurrent research in the sense of assembling as many available facts germane to a problem as possible and presenting them then and there, so that the reader may be left in no doubt as to the background against which some views are expressed or suggestions canvassed. Perhaps, for this reason, this journal has never felt the need for a separate statistical and research department of its own. On the other hand, it has itself served as a source of recorded information for researchers. Its Annual Numbers, especially those since 1944, have provided a comprehensive record of each year's major developments in the field of finance, trade and industry. A distinctive feature of these Numbers is the large bunch of special articles on topical issues contributed by eminent persons in

(*Continued on page* 244)

IN SERVICE L&T LIES SUCCESS...



DAIRY & REFRIGERATION

Pioneers in dairy engineering, L & T have helped to plan, and install 44 modern dairies all over India. Today, L & T also manufacture various items of dairy and refrigeration plant and equipment

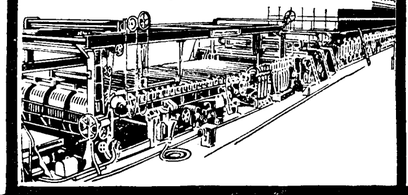
EARTHMOVING & AGRICULTURAL EQUIPMENT

L & T have supplied to various projects earthmoving, land-clearing, excavation, logging and dredging machinery—CATERPILLAR Tractors, Bulldozers, Dumpers, Scrapers and Motor Graders; JOHN DEERE Wheeltype Tractors; HENSCHEL Locomotives; COLES Cranes; HYSTER Fork Lift Trucks; and PRIESTMAN excavators and dredgers



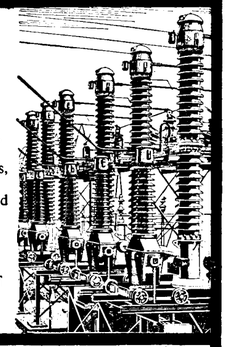
HEAVY PLANT

Paper machines manufactured by J. M. VOITH have been supplied to a number of Indian paper mills. Among other heavy plants supplied by L & T are NIRO Atomizer plants; CHEMIEBAU sulphuric acid plants; ROSE, DOWNS & THOMPSON solvent extraction plants; and BUHLER flour mills



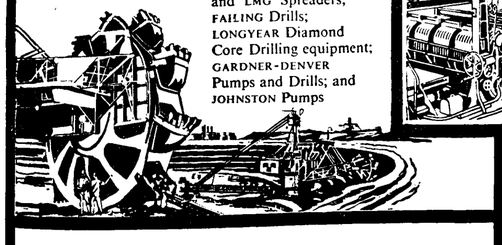
ELECTRICAL EQUIPMENT & SWITCHGEAR

L & T supply for hydro-electric and thermal power stations, substations and distribution installations, high quality electrical equipment manufactured by ESCHER WYSS, OERLIKON, HAEFELY and NORDEN; and LK Switchgear now manufactured by L & T at Powai



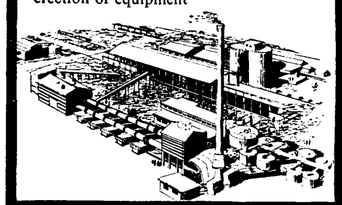
DRILLING & MINING

To the Neyveli Lignite Project, and other mining schemes, L & T have supplied 'LMG' Bucket Wheel Excavators and 'LMG' Spreaders; FAILING Drills; LONGYEAR Diamond Core Drilling equipment; GARDNER-DENVER Pumps and Drills; and JOHNSTON Pumps



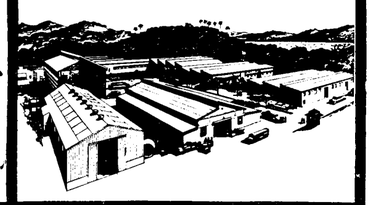
CIVIL ENGINEERING

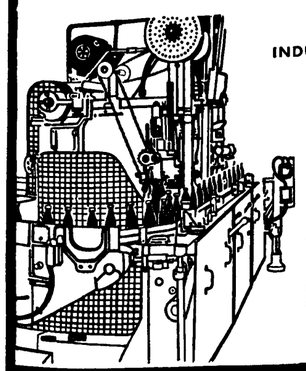
Engineering Construction Corporation Private Limited a fully owned subsidiary of L & T, has constructed a number of cement factories, notably the cement factory of India Cements Limited at Tinnevelly. L & T, together with ECC, undertakes to do "turn-key" jobs, including all design work, civil engineering and the supply and erection of equipment



MANUFACTURE

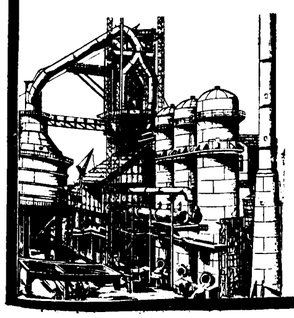
Products manufactured at L & T Powai Works
Dairy machinery and refrigeration equipment; solvent extraction plant; switchgear and motor starters; induced draught cooling towers, petrol dispensing and metering pumps; sheepfoot rollers and belt conveyors; stainless steel, copper and aluminium equipment for the chemical and dyestuff, drug, pharmaceutical and food-processing industries; and distilleries and breweries





INDUSTRIAL APPLIANCES

Numerous industrial appliances are supplied by L & T. These include DIAF pharmaceutical machinery; MORGAN FAIREST labelling and tablet strip-packing machinery; DANFOSS automatic refrigeration controls; ELLIOTT, BRISTOL and GORDON process control instruments; DE WALT power saws; EUTECTIC welding alloys; and up-to-date bottling installations



ERECTION

At the Rourkela steel works, L & T have erected 3 Blast Furnaces, a 'Pig' Casting machine, and the Rolling Mill Buildings, involving a total of 63,000 tons of steel work. These are only the more recent of the erection contracts executed by L & T

SERVICING

IN SERVICE L&T LIES SUCCESS

When we coined this slogan, we intended to sum up in a few words our outlook upon the function we perform. We believe that in the world of commerce lasting success comes only to those who are willing and competent to give service, as well as goods, to their customers. By service we mean advice and assistance to those who have engineering problems. We maintain a staff of experts in all our Divisions. Every installation, every piece of equipment we supply is backed by a service organisation designed to keep it working at highest efficiency. Only thus have we a right to hold the position we have always striven to occupy.

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Is Economic Independence Desirable?

India's Planning Policy Examined

By P. T. BAUER, M.A. (Cantab)
PROFESSOR OF ECONOMICS, UNIVERSITY OF LONDON

(With Special Reference to Underdeveloped Countries and Economic Development)

THE scope of this article is more limited and specific than its title suggests. It examines certain influential and widely canvassed ideas concerning the economic relations of underdeveloped countries with more developed countries. It discusses first the attainment of economic independence as a desirable objective of policy; and, second, the suggestion that a limited capacity to import and thus to export is a special obstacle to the economic development of underdeveloped countries. I shall argue that these ideas are mistaken and therefore unsuitable as bases of development planning.

The article is not intended as a general or systematic discussion of the aims and methods of Indian economic policy which would be inappropriate and indeed impossible in an article, and which I hope to present in a book to be published shortly. But, although the scope of the article is restricted, its subject matter is important since the ideas it examines are major influences in Indian planning policy.

Value of Specialisation

The need for economic independence has been adduced as a major objective of Indian planning in many official statements, including the second Plan itself. On first hearing, economic independence sounds an attractive aim of policy, particularly in a country which has only recently achieved political independence. But these two concepts are very different. The meaning of political independence, as the term is generally understood, is reasonably clear. A country is politically independent or sovereign, if its Government does not have to accept instructions from abroad. The concept of economic independence is much less clear cut. It is certainly not analogous to political independence in referring to the absence of compulsory compliance with orders from foreign Governments or organisations. In common parlance, it refers to a state of affairs or condition in which the economic position and prospects of individuals or of a country are unaffected by economic conditions external to them, especially by the external demand for their services and by the conditions on which goods and services are offered to them by others.

The idea thus refers to minimum external economic contacts. But this is by no means generally desirable. Specialisation, which is well recognised as a primary and indispensable condition of material prosperity and economic progress, implies production for exchange or for sale, which in turn implies external economic contacts beyond the family or some other narrowly defined group. Economic independence in the sense of absence of dependence on economic contacts with others is attained most completely, and, indeed, only, by subsistence producers and subsistence production is incompatible with a tolerable level of productivity, standard of living or rate of economic progress. Contrary to certain idyllic notions, a subsistence economy is not one which is secure, in that it provides its members with a modest but assured living. Its risks are much greater than those of an exchange economy, since it usually operates on a very low level and is without reserves against adversity.

These obvious considerations are borne out by experience in India, as elsewhere in the underdeveloped world. The poorest and materially most backward parts of India are those with fewest external economic contacts such as the remoter parts of Kashmir or the North-East Frontier Agency and the poorer parts of rural India where the villages are largely subsistence economies. And, conversely, the most advanced and prosperous towns, regions and sectors in India and in other underdeveloped countries are those with most extensive and intensive external economic contacts and in this sense least independent. The precarious balance of the subsistence economies of India, with the risk of local famines, so acute until recently, is also familiar.

Frankel Quoted

Professor S. Herbert Frankel of Oxford University is the contemporary economist who has most clearly and consistently emphasised the dangers of economic independence of underdeveloped countries, and the importance of access to distant markets and sources of ideas, new methods, skills, capital and commodities as essential instruments of economic progress. Professor Frankel's arguments, which are highly relevant to planning policy in underdeveloped countries, are less well known in India than they deserve to be. I shall quote from one of his recent articles, "Economic Aspects of Political Independence in Africa," which appeared in *International Affairs*, October 1960. Professor Frankel's immediate concern is with Africa, but, as he notes explicitly, his arguments are of wider application. I quote at some length, because I think his arguments deserve wider publicity in India and also to show that emphasis on these points is in no way derived from any particular attitude towards current Indian economic policy:

> "In economic terms, absolute 'independence' spells absolute isolation, and the blessings of isolation—whatever they may otherwise be—are not visibly associated with greater purchasing power over the goods and chattels of this world. They involve a precarious dependence on the environment and the vagaries of nature and on its brutal control of the balance of births and deaths and the growth of population. . . .
>
> "The barriers to economic growth are far more likely to be found in the field of administration and political institutions than in the lack of resources or of individuals at home or from abroad to undertake their development. Probably at no previous time in history has there been available such a network of private and public international agencies seeking to assist in the exploitation of the natural resources of the world and experimenting in the problems of training and technique in order to do so.
>
> "It is the paradox of our times that just when science and technique stand poised for major advances in easing the burden of man's labour and in multiplying his powers over the hitherto unopened, uncultivated, or underutilised regions of the world, the forces of unbridled nationalism and outworn tribalism bar the way to that private and collective international co-operation without which these advances cannot be made. In the last resort, the future of the newly independent countries of Africa, as well as that of countries in a similar position elsewhere, will depend on the extent to which not only they, but also the more advanced countries of the world, can adapt their institutions to the new requirements and opportunities of the world economy."

The general relevance of this argument is reinforced by the importance of external contacts as instruments for the transmission of the intellectual and material fruits of technical progress from the developed to the underdeveloped countries. It is often said that, in their prospects for economic advance, the underdeveloped countries at present are in a much worse position than were the developed countries at an earlier stage of their development, especially at the time of the industrial revolution, chiefly because of the acute poverty and the rapid population growth in most underdeveloped countries. It is, however, far from obvious that the present underdeveloped countries generally face greater obstacles to material advance than did developed countries in their earlier history, even if this comparison is meaningful which is questionable. It is questionable, because the conclusion depends, in part, on the basis of the comparison, notably what stage of the earlier history of developed countries is used for comparison.

External Assistance

The progress of the developed countries did not begin with the industrial revolution. By the middle of the eighteenth century, Great Britain and Western Europe had had many centuries of economic development behind them. It is, therefore, not surprising that they were materially more advanced than most underdeveloped countries at the beginning of the twentieth century, as many of these had only recently been caught up in the stream of material progress. In one important respect, the underdeveloped world is certainly better off than were the now developed countries at an earlier stage, in that it has access to the fruits of scientific and technical progress elsewhere to a far greater extent than the now developed countries had in the past. But they can only take full advantage of this potential benefit if they have extensive economic and social contacts with the outside world.

It will be recognised that the argument of this article is that economic interdependence, in the sense of extensive contacts with the outside world, is likely to conduce to a higher standard of living than would its absence. Interdependence in this sense is very different from economic dependence in the sense of reliance on external assistance such as reliance on Government-to-Government foreign aid. Reliance on such *assistance* implies continued dependence on an external political climate favourable to foreign aid which in turn depends on the domestic and external policies of foreign countries. It implies the acceptance of the status of economic dependence, not in the sense of external economic contacts but of reliance on external Government aid compounded of political expediency and humanitarian sentiment, the continuance of which is necessarily uncertain.

Soviet Example

I now have to consider some possible objections to the foregoing argument. First, it may be said to be contradicted by certain aspects of Soviet economic history, since, over certain periods, the Soviet Government deliberately restricted external economic contacts, and yet major sectors of the Soviet economy have advanced greatly in recent decades. But this objection is invalid for many reasons, of which only one or two need be considered here. The Soviet Government restricted external contacts for various political reasons not directly related to the promotion of material advance. With the change in the external and internal political climate, the Soviet Government has considerably modified this policy of isolation. Again, the territory of the Soviet Union covers one-sixth of the surface of the earth, with vast natural riches and a much more favourable ratio of land to population than applies in India, so that, on this ground, the adverse effects of self-imposed isolation could be expected to be much less. This is quite apart from the question how far Soviet methods have accelerated economic progress (compared to what it would have been otherwise), especially in terms of higher general living standards as distinct from the promotion of particular sectors of the economy.

There is another argument in favour of economic independence which has come to the fore in the last year or two. This argument suggests, in effect, that a large measure of self-sufficiency, especially in capital goods, is enforced on India, as on many other underdeveloped countries, by the unfavourable position and prospects of her export industries which are said to face stagnant or even saturated markets. This severely restricts India's capacity to export, and thus to import, with the consequential necessity to develop as quickly as possible a large-scale



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capacity for the production of capital goods to serve as basis for industrial expansion, which, in turn, is necessary for economic development.

This argument proceeds substantially as follows: without large-scale supplies of manufactured products, especially of investment goods, development is not possible; the constant volume of Indian exports in recent years shows that the market for these exports has come to be saturated; therefore it is necessary to produce these essential investment goods within the country.

An Untenable Contention

An interesting and succinct exposition of this line of reasoning is an article by Dr. S. J. Patel entitled "Export Prospects and Economic Growth: India," *Economic Journal*, September 1959. Dr. Patel, after reviewing the stationary volume of Indian exports in recent years, stresses the need for massive emphasis on the development of heavy industry locally, in view of the restricted ability to export and thus to import.

"... the inevitable implication of the stagnation of exports and hence import capacity is that an adequate flow of capital-goods for investments cannot be assured, without a much faster development of the heavy industries than any other sector of the economy for some years to come. The import policy will, therefore, have to be strictly and rigorously selective, not just encouraging all capital-goods imports as against consumer goods, but even within capital-goods imports giving the highest priority to the imports of the capital-goods that produce capital-goods. This generalisation also applies to those pre-industrial countries which cannot expect a rapid enough increase in their export proceeds to provide adequately for the needed capital-goods imports."

This line of reasoning is, however, unacceptable, for the following reasons, among others: First, it ignores the cost of establishing the capital goods industries and also the prospective demand for their products in a country such as India which has no adequate agricultural surplus. This disregard of cost and of demand suggests an engineering or military rather than economic approach. Further, neither the rate of economic growth nor the growth of manufacturing industry, nor the rate of capital formation depends on the growth of particular branches of heavy industry. The prior development locally of a capital goods industry is not necessary either for material prosperity or for the subsequent development of manufacturing industry itself. Some of the most prosperous and also some of the most highly industrialised countries in the world do not have highly developed local capital goods industries but rely on imports.

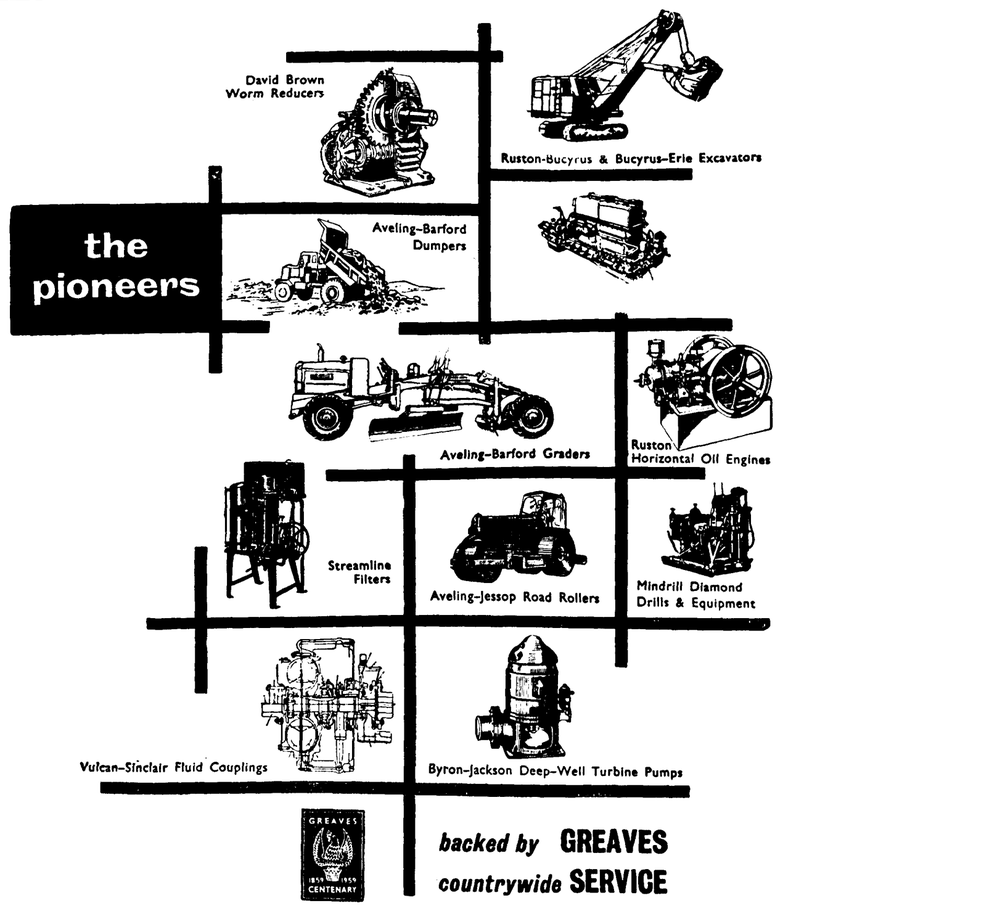
Example of Groundnuts

Third, the stagnant volume of Indian exports in recent years is no evidence of saturated markets. Some of the principal Indian exports represent only a part and in many cases only a small part of total world exports of these products and an even smaller part of world supplies. For instance, Indian exports of groundnuts are only about 12 per cent. of world exports and only about 2 per cent. of world production of groundnuts and they are an even much smaller proportion of world exports and production of all oils and oilseeds which are largely substitutable. And production and consumption of oils and oilseeds have increased greatly in recent years and decades. Indian exports of groundnuts have declined in recent years because larger supplies have been diverted to internal consumption. Substantially, the same argument applies to some of the other major Indian exports. Hence, the constant volume of Indian production of these exports is no evidence of stagnation of world demand.

Exports of a commodity from a particular country can increase even if the total world demand for it is constant or declining; and, conversely, such exports can decrease even when total world demand is rising. The volume of exports from a particular country depends largely on the relative prices at which the commodity is available from different sources of supply. Yet the line of reasoning under discussion ignores the prices charged for Indian exports as compared with the prices of competing supplies. It leaves out of account the effect on Indian prices of the massive deficit financing, with the consequent over-valuation of the Indian rupee, and the diversion of resources from production for export into the home market. The domestic consumption of a number of the Indian export products, notably groundnuts, tea and cotton cloth, has increased greatly in recent years at a time when world exports and imports have also increased. The world demand was not saturated, but Indian production was diverted to the home market as a result of fiscal and monetary policies.

Not A Critique

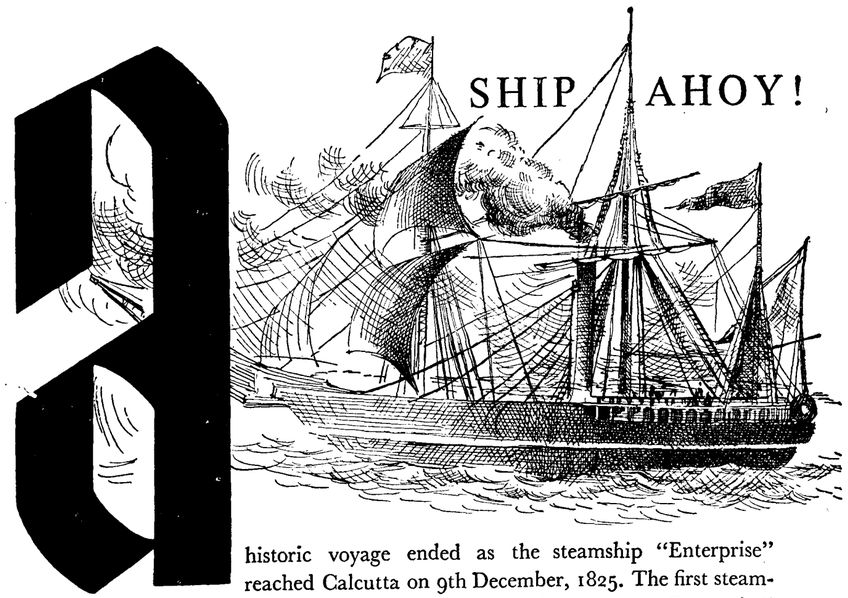
In conclusion, I should like to restate the scope and purpose of this article. It should be seen as a critical examination of certain ideas influential in India rather than as a critique either of current economic policy or even of broad elements of this policy. The wisdom of a policy is often independent of the arguments advanced in its support. But imprecise or outright confused ideas, such as the desirability of economic independence or alleged limited capacity to export, are a peculiar obstacle to development (that is, an obstacle additional to or different from the generally low productivity of resources) and cannot serve as a reliable basis for policy, least of all on matters so difficult, complex and delicate as the main issues in Indian economic planning.



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SOME ASPECTS OF THIRD FIVE-YEAR PLAN

Success Depends on Expansion of Agricultural Output and Availability of Foreign Exchange

By A. M. M. MURUGAPPA CHETTIAR

PRESIDENT, FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY

IT is tempting to measure the degree of success of or the prospects for a Plan in terms of the indices of national income, employment, investment, etc. But, in fact, the more important results that follow from the implementation of a Plan do not render themselves in full to statistical measurement. These lie in the formation of that socio-economic climate in which economic progress germinates. In the two Plans that were pushed through in the last decade, the broad social objectives were, no doubt, taken cognisance of but have failed to be met with adequately. We have not yet achieved that degree of social and economic unity which is necessary for a high national effort, nor have forces been operating in the direction of creating a society in which economic progress on all fronts will be self-generating rather than superimposed. The Plans have tended to be biased in the direction of economic objectives and a whole economic superstructure is being erected on presumably unprepared grounds. The Plans have looked too much like a schedule of investments.

Role of State

There is no conflict between our social and economic objectives but it is between social and economic functions of the State in relation to a traditional society which has to prepare itself for a "big change." The fulfilment of our social objectives is, in fact, a prerequisite for arriving at our long-term economic goals. A society which is resistant to change is also impervious to economic progress. The primary function of the State in relation to a stagnant society is not to take upon itself the economic functions of the individuals but to attempt to establish those socio-economic conditions in which individual enterprise will be rendered viable. In other words, public outlay must be directed in those spheres of economic activity in which marginal social product is high but marginal private product is just too low. That is to say, public investment must supplement private investment, not substitute it.

It may be observed that, in the last decade, public outlay has not been strictly guided by these considerations. Not only have social objectives sub-served economic objectives, but, at certain points, economic objectives themselves have been rendered sub-servient to doctrinare considerations. Too much preoccupation with the latter has vitiated a proper appreciation of the realities of the situation and, as a result, economic growth itself has come to suffer, which, it is the very objective of the State to accelerate. The Industrial Policy Resolution adopted in April 1956 imposed new constraints on the economic system. It increased economic friction and the flows of different commodities have come to be less fully co-ordinated. It may be hoped that, in regard to the exploration of oil and setting up of new refineries outside the public sphere, the Government will follow a realistic policy as in the case of fertiliser production.

Subject to these considerations, economic progress has come to be limited by the availability of capital and adjustments in the inter-sectoral balance. Both these aspects have been given full consideration in the Plan. In fact, the Plan has been formulated in terms of the first without losing sight of the second. *Inter se*, they constitute the two important constraints on the Plan framework. The size of the Plan is limited by the amount of available capital while the distribution of outlays is, in a large measure, influenced by considerations of intersectoral balance. Within certain variable limits, the latter is simply a technical factor determined, on the one hand, by the relative income elasticities of demand for different commodities and on the other, by the input-output relationship between sectors. Even in an economy in which commodity flows are determined by price-cost differentials, a fine adjustment between all sectors of the economy is seldom possible. In a planned economy, there is a greater potentiality of economic friction and, for this reason, the framework of the Plan must be flexible rather than rigid.

Imbalance

The present rise in prices which we have been experiencing since the beginning of the second Plan can be, in a large degree, directly attributed to the imbalance between agricultural and other sectors. Since agriculture constitutes about 50 per cent. of our national income, a rise in agricultural prices is directly reflected in the general price level. Besides, in the industrial cost structure, agricultural input constitutes a major part of the total input and, as such, the price of industrial raw materials assumes a significant weight in industrial prices. In short, a shortage of output in any sector has an adverse effect greater than itself. Complete adjustment of the flows of different commodities cannot be planned ahead. But a major shortage can certainly be foreseen.

In view of the fact that the growth of agricultural output over the last decade has been rather slow in relation to demand, it has been rightly pointed out by the Planning Commission that, in the third Plan, priority must be given to the expansion of agricultural output. The import of agricultural commodities under P.L. 480 agreements will help build a buffer stock which will not only supplement local shortages of agricultural output but also stabilise agricultural prices. But, from a long-term point of view, the third Plan cannot be formulated on the basis of the availability of this limited fund of resources, but must aim to achieve that flow of annual agricultural output that would make us self-sufficient in agriculture.

Over the first and the second Plans, investment in agriculture accounted for about 25 per cent. of total gross investment. Consequent on the programme of land reclamation, irrigation, etc., and the introduction of fertilisers and improved implements, agricultural output in the last decade increased by about 40 per cent., aided by favourable weather conditions. In the third Plan, besides the provision of Rs. 1,025 crores for agriculture and community development, other investment directly related to agriculture includes Rs. 650 crores on large and medium irrigation projects and Rs. 240 crores for the production of fertilisers. Total investment directly relating to agriculture will thus amount to Rs. 1,915 crores. When this investment is made, it is expected that agricultural production will increase by about twice the rate at which it increased during the last decade. That is, by the year 1965-66, agricultural production will be about 80 per cent. more than that in the pre-Plan year. Since agricultural output cannot be conceived simply as a function of capital investment, it may be conceded that, though the expected capital-output ratio in the third Plan may appear to be small, the target for agricultural output may well be achieved, if consistent efforts are made in other directions. There is great scope for improvement in agriculture. Our output per acre and output per man, for instance, are too low as compared with those in most other countries. The output of rice per acre, which constitutes about 50 per cent. of our foodgrain production, is only half of that of China and a quarter of that of Japan.

Organisation

Agricultural programme is not one of investment but of organisation. The methods of production adopted in agriculture are uneconomical in the present state of technical knowledge. The urge for modernisation is still lacking. Community Development Projects, which are an important feature of our planning, have not yielded satisfactory results. The third Five-year Plan provides for an outlay of Rs. 400 crores for community development and schemes have been devised to make the agriculturists more production conscious. It may be hoped that these efforts will operate in the right direction and to the right degree.

The second important limitation on economic growth has been the shortage of capital. Since capital is the scarce factor in our economy, it has been the major restrictive factor influencing the size of the Plan. An investment of Rs. 10,110 crores was made during the tenure of the first and second Plans, of which nearly a half was made in the private sector. In the third Plan, an investment of Rs. 10,200 crores is contemplated. Of this, Rs. 4,200 crores will be invested in the private sector (inclusive of Rs. 200 crores to be transferred from the public sector). The size of the third Plan is thus nearly equal to the size of the first two Plans together. But, as a result of the higher prices prevailing today, the size of physical planning will certainly be smaller than is indicated by the figures of finance. Nevertheless, it is felt that the limitational influence of capital has, to a certain degree, been transgressed, and the size of the third Plan has come to be influenced by the economic objectives rather than our ability to finance the Plan internally or from external assistance. It is estimated that, when the contemplated level of investment is undertaken, national income will increase at an average rate of about 5 per cent. per annum. Since the investment-income ratio will increase from about 11 per cent. in 1960-61 to 14 per cent. in 1965-66, consumption will increase at a much smaller rate. Again, since population will be increasing at an annual rate of 2 per cent., the increase in *per capita* consumption will not exceed 2 per cent. annually. This is certainly a minimum requisite.

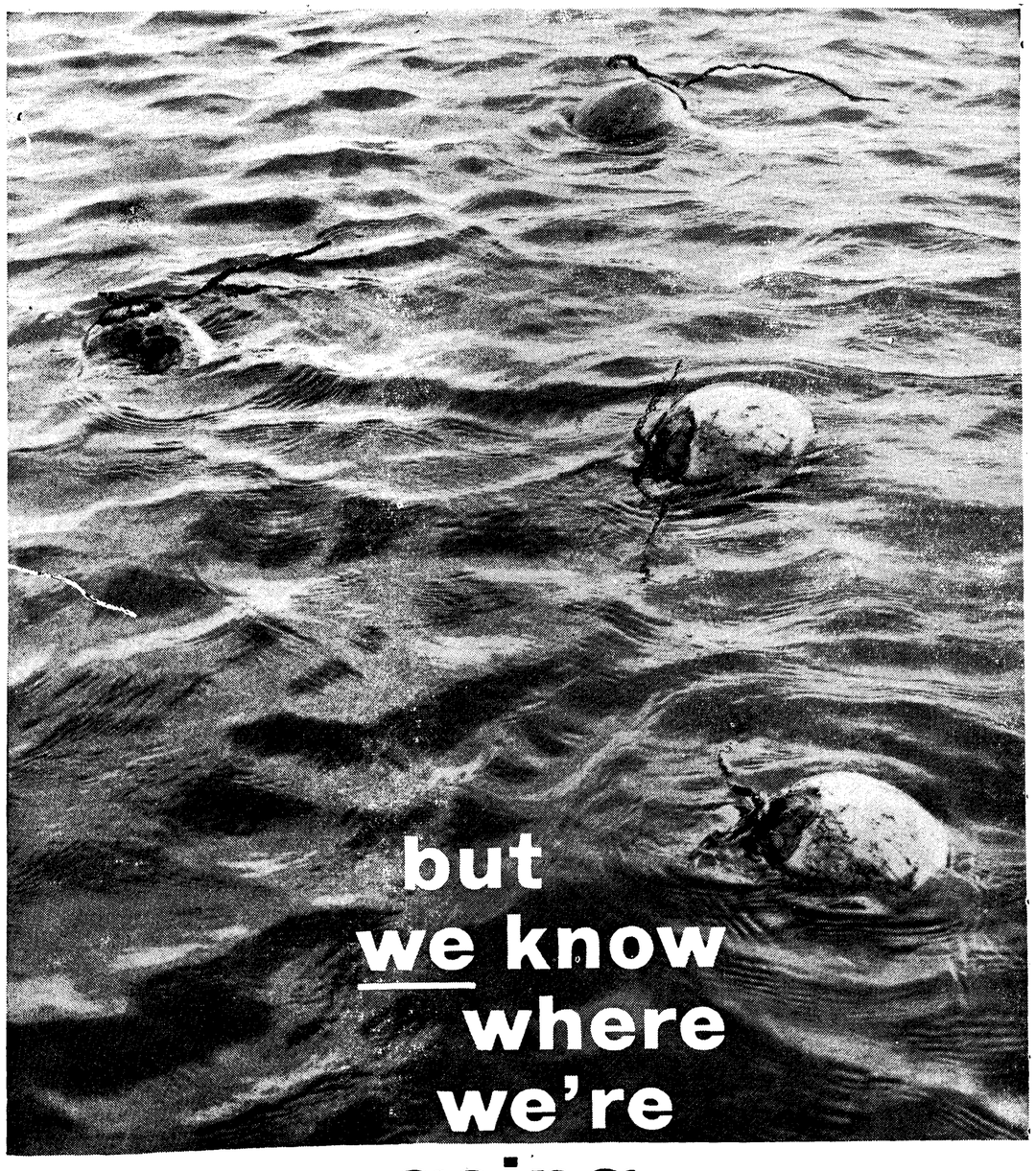
External Assistance

The investment of Rs. 10,200 crores will be financed partly from internal savings and partly from external assistance. The choice between these two sources of finance is not a matter of policy but, in a large degree, a technical requirement. In the initial state of the Plan, capital formation has to depend upon the import of capital goods. For the above level of investment to be effective, it is indicated that the import of machinery and equipment to the extent of Rs. 1,900 crores will be necessary. In addition, the import of components, balancing equipment, etc., needed to increase the production of capital goods within the country, will cause a further demand on foreign exchange to the tune of Rs. 200 crores. Apart from these requirements, we shall need foreign exchange of the value of Rs. 500 crores to cover the deficit on current account. Thus, to implement the Plan of the size contemplated, external assistance (excluding P.L. 480 assistance) of nearly a quarter of the size of the Plan would be absolutely necessary. External assistance availed upto April 1960 in the private and public sectors has been of the order of Rs. 1,367 crores, while the total balance of payment deficit for the third Plan would come to about Rs. 3,200 crores. The latter figure appears to be too high both in relation to total investment as well as in relation to external assistance availed in the past. But, since it is very much determined by technical coefficients, any shortfall in this source of finance will affect the size of the Plan in a greater degree than itself.

The availability of external assistance depends upon a complex of factors not wholly related to economic considerations. It cannot be judged *a priori* what level of external assistance would be forthcoming in the next quinquennium. Besides, external assistance is regulated by extra economic factors which fall outside the precincts of policy. The greater part of external assistance that has been available in the past was tied to specific projects and to specific countries. This has in itself limited the importance of external assistance. It is to be hoped that the recent discussions of the Aid India Club in Paris will have created an atmosphere that would make external assistance of the right type and upto the requisite amount available in the next quinquennium.

There is yet another source of external finance which has not been fully exploited. Private foreign capital is assuming an increasing importance. The second Plan estimated an inflow of private foreign investment of the order of Rs. 200 crores. In the third Plan, Rs. 300 crores of private foreign investment is envisaged. In relation to

(*Continued on page 34*)



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INDUSTRIAL DEVELOPMENT IN INDIA

"It Would Be Wiser If Economy Could Take A Breather"

By H. M. L. WILLIAMS

PRESIDENT, ASSOCIATED CHAMBERS OF COMMERCE OF INDIA

INDIA has moved a long way along the road to industrialisation in the thirteen years since independence. Considered in absolute terms, the record is impressive, but economic planning in India is governed by compulsions, social and political, that impart to the process a sense of urgency. Even set against these imperatives, on which democracy and personal liberty depend, the achievements are very considerable and, as the tempo of development speeds up in the next few years, great progress may be anticipated.

The factors that make rapid economic development a matter of such urgency are familiar enough. The explosive rate of population growth, estimated to raise the number of Indians from 431 million in 1961 to 480 million in 1966 and 528 million in 1971, is perhaps the most intractable of these. An annual growth rate of 2 per cent. a year swallows up much of the fruits of economic development. To this is added the fact that, with political independence and universal suffrage, the enfranchised millions are no longer prepared to accept poverty with resigned fatalism, but insistently demand a share of the good things of life. As a result, industrialisation has acquired a new and vital significance.

Progress Notable

Indian industrial development did not, by any means, begin with the period of planning, though the extent of development attained was nothing like today. Even before the First World War, the cotton and jute manufacturing industries, for which the country had exceptional natural advantages, were well established. The policy of discriminating protection, adopted in 1922, gave an impetus to the development of a wide range of industries, including steel, paper, sugar, cement and matches. By 1936, the country was able to produce its entire requirements of sugar and 95 per cent. of its consumption of cement. The production of *vanaspati*, soap and several engineering industries also recorded large increases. Towards the close of the inter-war period, the manufacture of electrical equipment and goods was initiated. During the Second World War, several industries, such as ferro-alloys, non-ferrous metals like aluminium and antimony, diesel engines, pumps, bicycles and sewing machines, chemicals like soda ash, caustic soda, chlorine and superphosphate, and certain types of machine tools and simple machinery were started on a modest scale. But the major impetus of the war was felt in the sector of medium and small-scale industries, such as light engineering, pharmaceuticals, medicines and drugs and cutlery. In the immediate post-war years, there was considerable investment activity, leading to the establishment of industries like rayon, automobiles, ball bearings, carding engines, ring frames and locomotives. Several new units were started and existing units expanded in industries like fertilisers, cement, sheet glass and the manufacture of caustic soda and sulphuric acid.

With all this, industrialisation had made hardly any impact on the traditional agricultural pattern of the economy as a whole. At the end of the first Five-year Plan in 1956, the Planning Commission noted that there had not been any marked change in the occupational pattern during the past three or four decades. Agriculture and allied pursuits continued to absorb about 70 per cent. of the working force. As against this, the proportion employed in mining and factory industry was only about 2.6 per cent. The rest of the working populations was distributed amongst small enterprises and construction (8 per cent.), transport, communications and trade (7 per cent.), and public administration, professions, liberal arts and domestic services (10 per cent.). The low proportion of the population employed in the secondary and tertiary sectors and the preponderance of the primary sector are the usual signs of economic undevelopment.

Production Indices

In assessing the progress that has been made in industrial development during the past decade of planning, indices of industrial production as a whole are less enlightening than statistics of production in particular industries. To be told that, taking 1951 as base equals 100, the average index of industrial output for the first five months of 1960 was 168.5 and that this was 13 per cent. more than the figure for the corresponding period of 1959 leaves us in the dark with regard to the important matter of the qualitative aspect of the increase in production. Between 1953 and 1958, for instance, there was a fall in the index of production of cotton textiles. But the index could not convey the information that, during these years, the country succeeded in making a whole range of textile machinery. Moreover, a number of new industries have grown up since 1951 and such progress is unrecorded in the index. The expansion since 1951 has been most striking in the production of capital and intermediate goods and the index does not correctly reflect this important advance. On the whole, it would appear that the index of industrial production tends to underestimate the progress made.

A more rewarding line of inquiry would be to study the increase in the physical output of the most important industries. Thus, production of steel ingots is rising from 1.4 million tons in 1950-51 towards an estimated 3.5 million tons by 1960-61 and installed capacity is scheduled to increase to 10.2 million tons by 1965-66. Other important advances are shown in the table at the bottom. Even this gives a very imperfect conception of the range of new products or substantial expansions that have been achieved or are planned to come into production during the third Five-year Plan. These include alloy, tool and special steels, more steel castings and forgings, heavy machinery building, coal mining machinery, watches, earth-moving equipment, road rollers, tractors, coaxial cables, carbon black, blasting explosives, safety fuses, detonators, sulpha drugs, penicillin, organic intermediates, insecticides, D.D.T., synthetic detergents, synthetic rubber, newsprint, staple fibres and wool tops.

Private *vs.* Public Sector

To the extent to which State enterprises are limited to the basic and heavy industries, which private investors would be reluctant to enter because of the heavy capital outlay and the long period of gestation, opinion in India generally accepts the growth of the public sector. There are differences of opinion over marginal cases, for example, whether it is necessary for the State to set up a unit for the manufacture of watches. But in the case of steel, heavy machinery, heavy electricals and other machine tool and machine-building industries, there is wide recognition that the expansionist activity of the State creates new opportunities and gives an impetus to development of industries in the private sector. Among the most important of the public sector projects are the three steel plants at Rourkela, Bhilai and Durgapur, with a fourth yet to be set up at Bokaro during the third Five-year Plan, the heavy machinery plant at Ranchi, the foundry forge shop at Ranchi, the mining machinery plant at Durgapur, the heavy electrical projects at Bhopal, coal washeries, heavy machine tools, ophthalmic glass, alloy and tool steels, heavy structurals, heavy plate and vessel works, a shipyard at Visakhapatnam, with another planned at Cochin. On the Government side, there has been some relaxation of the rather rigid interpretation of the Industrial Policy Resolution of 1956 defining the spheres of the public and private sectors. In the case of nitrogenous fertilisers, where the public sector has already assumed a dominant role, it is envisaged that, during the third Plan, the private sector will enter this field in a bigger way than in the past. More and more, the two sectors tend to be complementary. Programmes for the manufacture of dyestuffs, plastics and drugs in the private sector will be largely complementary to the programme for the manufacture of organic intermediates to be undertaken in the public sector. Similarly, while the manufacture of bulk drugs will be organised mainly in the public sector, the further processing of bulk drugs will be undertaken in the private sector.

Foreign Collaboration

The most important point about the present situation in regard to industrial development is one that neither industrial statistics nor lists of industrial products can adequately convey. It is the remarkable development in business sentiment, which has resulted in increasing opportunities to secure foreign collaboration for industrial enterprises and the capacity of the Indian capital market to provide large amounts of rupee capital for new enterprises. Many business houses have ambitious plans for expansion or diversification of their activities. Applications for licensing of new units and expansion of existing ones under the Industries (Development and Regulation) Act, 1951, are flowing in faster than ever. Agreements for financial as well as technical collaboration are concluded on an unprecedented scale and the collaborators include British, U.S., West German, Italian, Swedish, Norwegian, French and Japanese concerns.

Important instances of joint Indo-British industrial ventures cover the production of engineering equipment, electric wires and cables, sanitary ware and household ceramics, safety fuses and explosives, and wool tops. Collaboration with U.S. enterprises is represented in the production of surgical adhesive tapes, medicated plasters, etc., pharmaceutical and chemical products, drugs and chemicals, synthetic rubber and carbon black. West German collaboration has resulted in the production of refractories, cables and electric meters. Japanese collaboration covers glass, rayon and hardboards. Other countries represented are Switzerland, Italy, France, New Zealand, Belgium, Sweden and Czechoslovakia. From April to October 1960, the Government of India approved 228 agreements between India and foreign enterprises for the manufacture of a variety of items. Of these, 80 were with the U.K., 41 with West Germany, 35 with the U.S.A., 23 with Japan and 49 with other countries.

Stock Exchanges

On the Indian stock exchanges, beneath the speculative froth, there has been perceptible during the last three years or so a remarkable widening of the hitherto limited class of investors in industrial shares. The new recruits to the ranks of stock market investors are drawn chiefly from the middle classes, whose members have found not only employment and income but a new consciousness of social status opportunities for talent, in the process of industrial development. Investors have turned to equities, in preference to fixed-interest bearing bonds or other forms of investment that cannot hold out prospects of capital appreciation as well as an attractive income. A developing economy should provide growth stocks in plenty and investors in India have apparently developed an appetite for such scrips.

(*Continued on page* 30)

PRODUCTION OF ORGANISED INDUSTRIES

(Progress and Targets)

Name of Industry	Unit	1950-51 production	1960-61 Estimated capacity	1960-61 Estimated production	Targets for 1965-66 Capacity	Targets for 1965-66 Production
Steel (ingots)	Million tons	1.4	6.0	3.5	10.2	9.5
Steel (finished)	,, ,,	0.98	4.5	2.6	7.5	6.9
Aluminium	1,000 tons	3.68	17.5	17.0	82.5	75.0
Automobiles—						
(a) Passenger cars	1,000 Nos.	16.5	20.0	20.0	30.0	30.0
(b) Commercial vehicles			28.0	28.0	60.0	60.0
(c) Jeeps and stations wagons			5.5	5.5	10.0	10.0
Bicycles	Million Nos.	0.10	2.2	1.05	2.2	2.0
Sewing machines	1,000 Nos.	33.0	288.0	300.0	500.0	450.0
Fertilisers (nitrogenous)	1,000 tons	9.0	234.0	210.0	1,000.0	1,000.0
Heavy chemicals—						
(1) Sulphuric acid	,, ,,	99.0	521.0	400.0	1,500.0	1,250.0
(2) Soda ash	,, ,,	45.0	304.0	240.0	530.0	450.0
(3) Caustic soda	,, ,,	11.0	150.0	125.0	400.0	340.0
Soap	,, ,,	106.0	254.0*	380.0	254.0*	500.0
Rubber manufacturers—						
(1) Automobile tyres	Million Nos.	N.A.	1.76	1.5	3.7	3.0
(2) Bicycle tyres	,, ,,	N.A.	16.9	14.0	38.8	31.0
Paper and paper-board	1,000 tons	114.0	363.0	320.0	820.0	700.0
Cement	Million tons	2.7	10.0	8.8	15.0	13.0
Glass and glassware	1,000 ,,	92.0	457.0	240.0	615.0	440.0
Rayon (filament)	Million lbs.	0.4	52.3	47.0	140.0	140.0

N. A.— Not available. * Organised sector only



THE SUGAR INDUSTRY GOES AHEAD

By S. K. PATIL

UNION MINISTER FOR FOOD AND AGRICULTURE

INDIA is the leading sugarcane and sugar producing country contributing about one-third to the world's sugarcane production and about one-ninth of the world's sugar. In 1948-49, India's sugar production was only of the order of 10 lakh tons; in 1959-60, the production exceeded 24 lakh tons. This phenomenal increase over a decade has been achieved as a result of suitable incentives, controls and a planned programme of development. The installed capacity of the sugar industry which stood at 15 lakh tons at the beginning of the first Five-year Plan was, on the recommendation of the Development Council for Sugar Industry appointed in 1954, raised to 25 lakh tons to be achieved by 1960-61. In pursuance of the above decision, licences were granted for the entire additional capacity of 10 lakh tons; 71 existing factories were to be expanded, yielding an additional output of a little over 4 lakh tons. Fifty-two new factories were to be set up, of which 38 were to be established on co-operative lines. A total output of about 6 lakh tons was expected from these new factories. Besides, there was a new factory to be set up in Pondicherry, with a capacity of 0.14 lakh tons. Thirty-three new factories (including 24 co-operatives) have gone into production by the 1959-60 season. Expansion programmes have also been carried out by 34 out of the 71 existing factories licensed therefor.

The expansion programme has to some extent been hindered by foreign exchange difficulties. These difficulties, however, reinforced the endeavours to manufacture machinery in India. By the end of the 1959-60 season, the actual installed capacity stood at 20.8 lakh tons. The installed capacity of the industry would be 22.76 lakh tons by 1960-61 as against 25 lakh tons envisaged in the Plan. Actual production in 1959-60 has already approximated to this target of 25 lakh tons.

Production Trend

Even in the first Plan period, sugar production increased by 66.40 per cent., the actual production of 18.6 lakh tons in 1955-56 being 24 per cent. higher than the Plan target of 15 lakh tons. In 1956-57, production rose to 20.3 lakh tons, followed by a slight decline to 19.8 lakh tons in 1957-58. This decline occurred mainly in Uttar Pradesh and Bihar, and was attributable to a shorter duration of the crushing season, consequent on the diversion of cane from vacuum pan factories for conversion into *gur* and *khandsari* in western Uttar Pradesh. In 1958-59, too, sugar production at 19.2 lakh tons recorded a fall of about 60 thousand tons or 2.98 per cent. over the 1957-58 outturn of 19.8 lakh tons, a shortfall arising out of a sizable fall in cane production in Uttar Pradesh and a large diversion of supplies to *khandsari* units, lower recovery and temporary stoppages of cane supplies to factories consequent on the cane-growers' agitation for increase in sugarcane prices.

Well ahead of the 1959-60 season, the Government of India announced a production-orientated policy for sugar, offering incentives for increased production to cane-growers and sugar manufacturers alike.

With effect from 13th October 1958, for factories starting crushing before November 1959 a concession of 31 nP in the price of sugarcane per maund was allowed from the date of crushing upto 14th November 1959 in western Uttar Pradesh and for factories which started crushing before 10th November 1958 upto 21st November 1959 in eastern Uttar Pradesh and North Bihar. With effect from 25th October 1959, the factories were allowed a rebate of 50 per cent. in the basic excise duty of Rs. 11.25 per cwt. on all sugar produced in the season in excess of the average production of two previous seasons. This rebate was to be shared both by the factory and the growers. For factories which started production only in 1957-58 or did not produce in 1957-58, the basis of rebate was to be considered on merits. With effect from 25th October 1959, the minimum sugarcane price was raised from Re. 1.44 to Re. 1.62 per maund for delivery at factory gate and from Re. 1.31 to Re. 1.50 per maund for delivery at purchasing centres connected by rail, for the 1959-60 crop.

As a result of the revision of minimum price for cane, Government raised the ex-factory price of D-29 grade of sugar, with effect from 25th October 1959, from Rs. 36.00 to Rs. 37.85 per maund in respect of sugar produced by vacuum factories in Uttar Pradesh and North Bihar and from Rs. 36.50 to Rs. 38.35 per maund in the Punjab. With effect from 4th April 1960, the production of South Bihar sugar mills has also been subjected to price control at the ex-factory price of Rs. 38.35 per maund.

Demand for Sugar

These incentives had a positive role in enabling the mills to get regular supplies and work for a longer crushing season, with the result that the estimated production of sugar at 24.2 lakh tons during 1959-60 outstripped the second Five-year Plan target of 22.5 lakh tons and showed an increase of 5 lakh tons or 25.8 per cent. over the previous season's production of 19.2 lakh tons. To an extent, better cane production and higher recovery of sugar were also helpful in increasing production. The increase occurred under the framework of control. The increase in population and in standard of living among different sections of the people resulted in consumption of sugar going up. There was also a certain amount of switchover from *gur* to sugar consumption. Consumption has nearly doubled from 11.8 lakh tons in 1948-49 to 22.2 lakh tons in 1959-60. During the first Plan period, sugar consumption in India increased by about 80 per cent. from 10.8 lakh tons in 1950-51 to 19.4 lakh tons in 1955-56. During the first four years of the second Plan, sugar consumption has further increased by 14 per cent. to 22.2 lakh tons. The *per capita* consumption, which was 7.18 lbs. in 1950-51, rose to 11.40 lbs. in 1955-56 and to 11.8 lbs. in 1958-59 and, with greater availability during 1959-60 is expected to be still higher. The higher level of taxes has had no inhibiting effect on consumption of sugar, thanks to the rise in purchasing power. According to an estimate made by the Development Council for Sugar Industry, the annual changeover to sugar is likely to be of the order of 37,000 tons. Preliminary estimates on the present trend of consumption and the likely increase in population, change in dietetic habits and increase in purchasing power, indicate that the internal demand for sugar would be of the order of 30 lakh tons by the end of the third Five-year Plan. The target of sugar output for the third Five-year Plan has, therefore, been tentatively fixed at 30 lakh tons. To provide for the continuing rise in consumption and unforeseen shortfalls in production, the installed capacity in the third Plan for production of sugar is kept at 2.5 lakh tons higher than the production target.

Exports

The substantial increase in the domestic demand for sugar which followed the withdrawal of control in December 1952 had to be met by import of foreign sugar to the tune of 14 lakh tons between the period 1952-53 and 1955-56. The subsequent increase in sugar production has enabled the country not only to do away with imports but export sugar; in 1956-57, 1.4 lakh tons of sugar was exported fetching Rs. 12 crores. Since the 1957-58 season, the pace of exports slowed down, owing to a fall in world prices of sugar. Exports, which in 1957-58 aggregated 36,000 tons, were only about 29,000 tons during 1958-59. The decline in production in 1958-59 led to curtailing exports, in the interests of internal consumption. During the 1959-60 season, upto the end of October, there were no sales or shipments of sugar. The increase in production in 1959-60 has again enabled release of 50,000 tons of sugar for export.

Prices of Sugar

Another satisfactory feature of the industry is that, in recent years, prices have shown much smaller fluctuations than those of many agricultural and industrial commodities. There was some increase in prices in the 1956-57 season, due mainly to increase in excise duty from 16th May 1957, imposition of inter-State sales tax and the surcharge on rail fare. Towards the middle of the 1957-58 season, the prices tended to go up in anticipation of the announcement of Government policy for the promotion of sugar exports. But the Government were quick to adopt regulatory measures to arrest the rise in prices. They fixed ex-factory prices of sugar, started requisitioning and distribution of sugar at fixed ex-factory prices as also despatch to outstation centres on freight-to-pay basis and allotted sugar to Delhi, Kanpur, Calcutta and Bombay at fixed f.o.r. destination prices. Since 18th July 1958, the control of bank advances against sugar stocks was also tightened. These regulatory measures were continued for another two years and when, in April 1959, prices were again tending to rise, a set of additional measures were promptly taken. These included the licensing of wholesale dealers in sugar by State Governments, banning export of surgar from Delhi and later on from Greater Bombay, and assignment of specific quotas to individual States and banning inter-State movement to ensure the consumption of these quotas within the respective States. It was also decided to have the entire production of sugar by mills at the disposal of the Government for direct allocation. These steps and the increase in production ensured a reasonable level of prices during the 1959-60 season.

Costs and Prices

Determining production cost and fixing prices in relation to cost have naturally remained a complicated problem. On the basis of the cost schedule recommended by the second Expert Committee (Gopalakrishnan Committee) in 1955, the Government of India fixed certain prices on the 30th July 1958. On these, the mill-owners represented that the expenses allowed under the schedule of the first Expert Committee (Naidu Committee) (1953) and later amended (in 1957) by the second Expert Committee did not fully cover the increases in costs which had taken place during the past few years and that the allowances provided for rehabilitation charges and profits were inadequate. The cane growers, on the contrary, urged that the costs provided for in the schedule were too high. Accordingly, the Government of India referred the matter to the Tariff Commission. The Commission has upheld the views of the Gopalakrishnan Committee and recommended that it was necessary to work out separate cost schedules for different regions, using the data relating to recovery and duration of the factories located in the region, as these factors varied from State to State, region to region in the same State and even from factory to factory in the same year. The Commission, therefore, prepared four cost schedules applicable to the following four regions:

The northern region, comprising the States of Uttar Pradesh, Bihar and Punjab; Maharashtra and Gujarat (erstwhile Bombay State); Madhya Pradesh and Rajasthan and the southern region comprising the States of Andhra Pradesh, Madras and Mysore.

The Commission clarified that Orissa, West Bengal and Assam should be covered by the cost schedule for the northern region and Kerala by the schedule for the southern region.

The Government have accepted the schedules prepared by the Commission and have decided to make use of them in fixing controlled prices when necessary. They have also accepted the Commission's recommendation that, in addition to the cost of production derived from cost shedules, a 12 per cent. return be allowed on capital employed and that a return allowance for rehabilitation need not be made in the fixation of ex-factory price.

Measures for Reducing Cost

The deeper problem of cost has to be tackled through better yields of cane and sugar content, improving the efficiency of factories and better utilisation of by-products. As would be seen from the figures given in the adjacent table, the yield of cane per acre and sugar content of cane are comparatively low in India as

	India	Australia	Indonesia	Cuba	Hawaii
Yield of cane per acre (tons) ..	14·50	21·30	56·20	17·12	62·05
Average sugar content of cane per cent	12·50	15·27	13·47	14·65	12·91
Quantity of sugarcane required for making one maund of sugar	10·07	7·14	8·94	8·16	9·28
Yield of sugar per acre (tons) ..	1·82	3·26	5·57	2·51	8·01



compared with other countries of the world.

Even within India, cane yields show wide variations. In 1958-59, for instance, Andhra Pradesh showed an average yield of 8,180 lbs. per acre in terms of *gur*, Mysore 6,227 lbs., Madras 5,973 lbs., Bombay 5,934 lbs.; Uttar Pradesh had only 2,508 lbs. and Bihar 3,352 lbs. In some of the less important sugarcane producing States, the yields are much smaller. The sugarcane development schemes, which, under the second Five-year Plan, are more broadbased than those under the first, have, as their main objective, higher yield per acre and improved quality of cane.

Under these schemes in operation in the various sugar producing States, efforts are under way to develop varieties of sugarcane which give high tonnage, are disease-resistant and possess high sugar content. Such varieties are being distributed more and more extensively and grown on farms in accordance with improved cultural practices and fertiliser schemes carefully selected to suit soil and climatic conditions. Alongside, consistent attention is being given to provision of better irrigation facilities, construction of roads in sugar factory areas, propagation of intensive manuring of sugarcane and improved methods of cultivation.

Experiments conducted by the Indian Institute of Sugarcane Research have shown that, even in the adverse climatic conditions obtaining in North India, with new varieties and improved cultural practices it is possible to secure economically cane yields of the order of 1,000 maunds (about 37 tons) or more per acre.

Fairly well-organised cane development departments are functioning in the major cane-growing States, providing exclusive assistance to sugarcane growers. Governments of major sugarcane growing States levy a cess at varying rates for cane development. The announcement of minimum cane prices in advance of the planting season is an incentive to growers. With effect from 25th October 1959, the minimum prices for sugarcane were raised both for delivery at factory gate and for delivery at purchasing centres, connected by rail. The revised minimum cane price has been continued for the 1960-61 crop.

These measures have brought about increase in the area under cane, production and yield per acre as would be seen from the following figures:

	Area under cane (Million acres)	Production of cane (Million tons)	All-India average yield in tons (Per acre)
1955-56 ..	4·56	59·59	13·1
1956-57 ..	5·07	67·96	13·4
1957-58 ..	5·08	68·02	13·4
1958-59 ..	4·80	70·44	14·7
1959-60 (Provisional) ..	5·18	75·04	14·5

Price Linking Formula

The question of equitable distribution of profits from the sugar industry came to the fore, after the removal of control in December 1952. A formula for sharing between the factories and the growers the price of sugar realised by sugar factories, was drawn up by the South Indian Sugar Mills' Association in 1953, with the agreement of cane growers in their areas. As this formula for linking the price of cane with the price of sugar could not be applied to other sugar producing regions, a new formula was devised by the Ministry of Food and Agriculture for application to the whole country in 1954. The formula was applied on a voluntary basis from the year 1952-53 to 1957-58. During this period, nearly Rs. 5.9 crores have been paid as additional price to cane growers over and above the all-India minimum cane price. This includes the payment made in Maharashtra and Gujarat where a consolidated price is fixed every year on the recommendation of the State Government.

With effect from the 1958-59 season, the formula has been made applicable on a statutory basis, subject to the condition that the State Governments may apply any other formula or scheme in a State or region with the prior approval of the Central Government. The basic principle of the formula is that the growers supplying cane to a sugar factory share with the factory-owners the net sugar price realised by the latter during the year in the same ratio as the cost of cane bears to the factory's cost of production of sugar during that year, excluding taxes.

The details of the formula have given rise to controversy between the growers and the factory-owners; and the Government of India have been obliged to refer the matter again to the Tariff Commission. The Commission has been asked to suggest a revised formula, examine the range of its applicability and the effects of the formula on the establishment of new factories with heavy capital outlay and whether any concession should be allowed to them in the matter of application of the formula.

The Coimbatore Sugarcane Breeding Institute is engaged in evolving disease-resistant and high sugar yielding varieties. The scheme for payment of cane price on the basis of quality is also being tried on an experimental basis in a few selected factories. Here, there is the practical difficulty of determining the quality of cane produced by a very large number of growers. However, the introduction of the scheme on the basis of group analysis in the case of small growers and individual analysis in the case of large groups is being tried.

Towards improving manufacturing efficiency, an extension service has been established at the National Sugar Institute, Kanpur, to advise the factories. A scheme for manufacturing synthetic rubber based on alcohol produced from molasses, the most important by-product of sugar, is also on hand. Proposals to utilise bagasse in the manufacture of paper are under consideration. Experiments are in progress to process the cane wax extracted from press mud for being used in various industries.

Sugar *vis-a-vis Khandsari* and *Gur*

Not all sugarcane grown in India goes into sugar production. Generally, about 30 per cent. of total production of cane is utilised in the production of white crystal sugar, about 50 per cent. for the manufacture of *gur*, about 5 per cent. for *khandsari* and the rest for chewing and seeds. Production of all the three has gone up in recent years—sugar from about 10 lakh tons in 1953-54 to 24.2 lakh tons in 1959-60, *gur* from 25.4 lakh tons to 34 lakh tons and *khandsari* from 0.95 lakh tons to 3.50 lakh tons. Side by side with white crystal sugar, the production of *gur* and *khandsari* has its own place in the economy of the country. The demand for *khandsari* sugar is largely confined to the States of the Punjab, Uttar Pradesh, Madhya Pradesh, Rajasthan and Gujarat. There is no appreciable demand for *khandsari* in other States. While, therefore, increased production of *khandsari* can supplement sugar in areas where it is consumed, *khandsari* cannot totally replace white sugar as its keeping quality is poor and it cannot generally be used in confectionery, fruit preservation and cold drink manufacturing industries. The production of *khandsari* is concentrated largely in western Uttar Pradesh. With the doubling of the excise duty on factory sugar from Rs. 4.12 per maund to Rs. 8.25 per maund in May 1957 and levy of an additional duty in lieu of sales tax in December 1957 coupled with cane cess and co-operative societies' commission, *khandsari* enjoyed a tax advantage of Rs. 13.20 per maund over sugar, which, in turn, enabled the *khandsari* industry to buy sugarcane in competition with the factories and to set up *khandsari* units in sugar factory areas. The Fact-Finding Committee on *Khandsari*, appointed by the Government in June 1958, recommended locational control over establishment of *khandsari* units through a system of licensing. Accordingly, the Uttar Pradesh Government promulgated, in February 1959, the Uttar Pradesh *Khandsari* Sugar Manufacturers Licensing Order. The State Government also imposed a cess at the rate of 4 nP per maund and co-operative societies commission at the rate of 2 nP per maund on cane purchased by ordinary *khandsari* units and a cess of 9 nP per maund and a commission of 3 nP per maund on cane purchased by *khandsari* units within the jurisdiction of gate areas of sugar factories. With effect from 1st March 1959, the Central Government also levied an excise duty of Rs. 4.63 per maund on all *khandsari* sugar. This was reduced to Rs. 4.16 with effect from 20th April 1959 on *khandsari* sugar produced by sulphitation process and Rs. 3.24 per maund on *khandsari* sugar produced otherwise. These measures have reduced, to some extent, the tax advantage enjoyed by *khandsari* industry. There is no price control over *khandsari* and, in ordinary times, its price generally tends to remain about Rs. 4 per maund lower than the price of average quality crystal sugar. During the 1958-59 season, *khandsari* prices ruled high due to the tight position of crystal sugar in the country. During the 1959-60 season, price of good quality *khandsari* came down to the level of factory sugar. It is important to ensure that the *khandsari* industry does not compete for supplies of cane with crystal sugar factories. There is, however, scope for development of the *khandsari* industry in areas where no sugar factories exist or where no sugar factories can be established.

The Future

A sustained increase in sugar production is necessary for meeting national requirements which increase year by year through growth of population and purchasing power; besides a sizable buffer stock has to be held for stabilising sugar prices and for export. A regular supply of good quality sugarcane and a fairly long production season have to be ensured. The continuance for the 1960-61 season of incentives offered by the Government in the 1959-60 season is expected to result in a further increase in sugar production. There has been a substantial expansion in the production capacity of the industry. While in recent years the actual production of sugar has been higher than installed capacity, in the third Five-year Plan the capacity has been kept higher than the production target which obviously provides more scope for increasing production.

INDUSTRIAL DEVELOPMENT IN INDIA

(*Concluded from page 26*)

The boom in new issues in the last two years, and specially in recent months, has assumed proportions that have created problems for the stock exchanges as well as the Government. There are large opportunities for the spread of the investment habit, by means of unit trusts, investment clubs and other devices that have proved so successful in other countries.

Industrialising in a Hurry

India is industrialising in a hurry. The attempt to cram into a few years the achievements that were spread over half a century or more in Western countries inevitably creates stresses and strains. Apart from the complexities of determining the monetary and fiscal techniques that would be appropriate in Indian conditions—which involves some element of trial and error—it is no easy matter to determine the extent to which market forces may be allowed to operate.

The industrial set-up is gradually acquiring the nature and characteristics of a modern, technologically advanced society. But the old order still survives and the casual visitor is sometimes startled at the juxtaposition of the ultramodern and the immeasurably ancient. One of the biggest bottlenecks resulting from the attempt to force the pace of industrialisation is the paucity of technological and managerial personnel. Foreign technicians are employed and Indians are trained to take over, but, time and again, it has been demonstrated, sometimes at heavy cost, that high-level skill, experience and judgment cannot be acquired in a hurry. It is not that the human material is in any way inferior. It is not. It is simply that demand for such skilled and experienced personnel is growing much more rapidly than the supply. There are not enough men with the right training and experience to go round, not only at the highest level but in the lower echelons, at the supervisory level. It would perhaps be wiser, in the circumstances, if the economy could take a breather, so that the gains already achieved may be properly consolidated before a further spurt forward is induced. Haste may result in costly waste, while slow and steady may yet win the race.

Another factor retarding development is the inadequacy of transport facilities, both road and rail. This has resulted in slowing down and sometimes even in complete dislocation of production schedules. The recent experience in regard to coal has emphasised the seriousness of the problem. In spite of the large allocation for the extension of transport facilities in the third Five-year Plan, there remains some element of doubt as to whether the situation can be corrected within the foreseeable future.

The eyes of the world are on India, watching with sympathy and concern, this unique effort of an underdeveloped country to accomplish economic development by democratic means. The sympathy has expressed itself concretely on the massive foreign aid, without which the Plans could not be carried through.

Businessmen the world over seem to be increasingly convinced that, viewed as a business proposition, investment in Indian industrial developments has attractions. Private capital is coming in on an ever-increasing scale. Faith in the future of Indian industrial development is well merited and should bring, in time, its due reward.

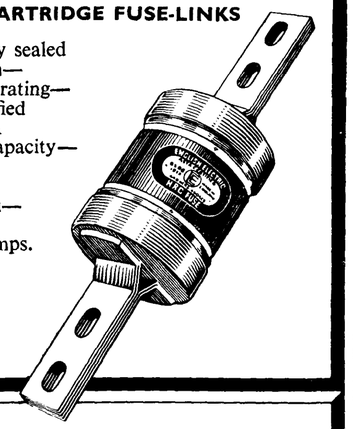
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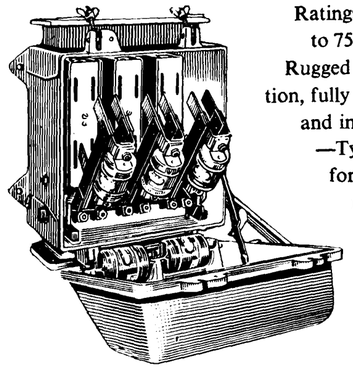
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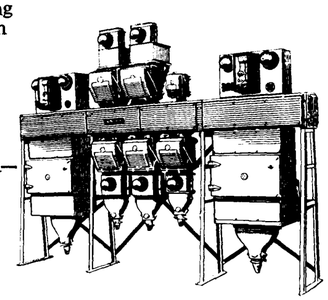
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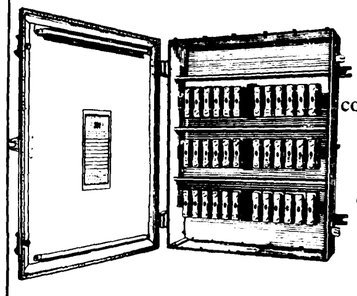
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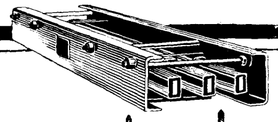
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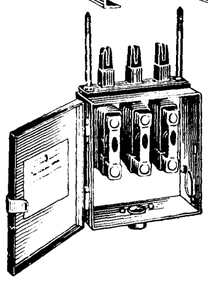
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EEC-71

BRITAIN'S ECONOMIC POLICY AND THE NEEDS OF WORLD DEVELOPMENT

By HAROLD WILSON, M.P.
HOUSE OF COMMONS, LONDON

THIS article is concerned with the responsibility of Britain for assisting with the development of Asian countries, and particularly with the changes that will be needed both in Britain's external economic policies, and in the organisation of her internal economy.

It is not necessary to repeat here the reasons—of economics, of foreign policy, or of morality—why Britain, in common with other "advanced" countries, must play a great part in aiding the social and economic advance of underdeveloped areas.* Views and proposals which a decade ago were regarded as idealistic and even revolutionary are now accepted, in principle at least, by the great majority of economists and statesmen of all countries. If Lord Boyd-Orr, the greatest of the pioneers in this field, had to face the unbelief, even the hostility, which are the normal fate of a prophet whose warnings are ahead of his time, he can now feel that his speeches and writings have passed into the "respectable" corpus of accepted thought, if not yet of adequately effective action.

Colombo Plan

Just over ten years ago, the Colombo Plan was born, and those of us who were concerned with it as Ministers felt that it was, at any rate, a beginning, one practical application of the Point Four proposals which had been put forward by President Truman in his Inaugural Speech. It proclaimed four principles. The first of these was that the underdeveloped countries in South-East Asia must crystallise their aspirations into concrete plans for economic development, with specific proposals in the fields of agriculture, industry, irrigation, flood-control and social development. Secondly, it accepted that the success of these plans was now, for the first time, the concern of all the countries signatory to the Plan. Thirdly, it quantified—and proposed plans for meeting—the financial requirements of the plans and of the economies of the countries concerned, requirements expressed in terms of both internal finance and foreign exchange. Fourthly, it laid great stress on the need for making available technical experts from the advanced countries, and, even more, for providing adequate training facilities for nationals of the developing countries. In all four respects, it anticipated the enormous volume of work, covering Asia, Africa, and Latin America which has been done under the ægis of the United Nations and its specialised agencies, and, to some extent at least, bilaterally by some of the richer countries.

This is not the place to assess the results of the Colombo Plan or of the work of the various United Nations agencies. I am more concerned to draw lessons from the past ten years and to seek to apply them to the task facing Britain in the future.

One thing is clear. The emphasis which the Colombo Plan laid on technical personnel was abundantly justified and it might fairly be claimed that arrangements for supplying, and more particularly training, experts in every field have been among the great successes of the past few years. Indeed, we have now reached the point where a number of the countries involved—India and Israel particularly spring to mind—are readily making available some of their own experts to help in other areas where they are needed, bringing with them not only their expertise, but their own very special experience of working in a newly-developing area, and with a keen knowledge of the problems likely to be faced by the people concerned.

Another lesson which can be drawn is something which was, unfortunately, only too easy to predict—the extent to which finance, particularly foreign exchange, can provide the limiting factor in the fulfilment of plans which are urgently necessary to a country's growth and development. The sudden crisis in the financing of India's second Five-year Plan, and the grave anxieties surrounding the financing of the third Plan, have been a spectacular illustration of this still unsolved problem.

Turning to the future, there must be continuing concern about the provision of adequate finance by the advanced countries. Though there is widespread realisation of the scale of help required, we are faced by the continuing inability of the United Kingdom to produce an adequate payments surplus, and by the recent emergence of the United States as a country with a dollar crisis.

U.S. Payments Problem

No one yet can say whether America's balance of payments problem is a purely temporary phenomenon or one which will condition development finance throughout the 'sixties. All the evidence so far available suggests that, on export-import account, America is paying her way with a healthy margin, but that the combined volume of her prodigious overseas military expenditure, her economic aid, and her private overseas investment produces a total which far exceeds her balance of payments surplus on current account, and thus causes a steady erosion of her gold reserves. One must hope that whatever economies may be made in overseas military expenditure, whatever curbs may be placed on private overseas investment, America will not seek to solve her problems by cutting economic aid to underdeveloped countries, or by policies of deflation or protectionism which, in the long run, will merely export her crisis to other countries even less well fitted to bear the burden.

America's future contribution to world development, then, is unpredictable. A more hopeful factor may be Germany's undoubted ability, and, one hopes, equally undoubted, willingness to play a growing role in world development—provided always that she does not cripple herself by becoming a nuclear military power.

Reproach Against Conservative Government

Now I turn to Britain, and first, to the changes needed in her overseas economic policy. So far, partly because of recurrent economic crises, Britain's contribution has been too small, and too much characterised by short-run contributions covering a year or so ahead. Apart from our contribution to the World Bank, we have not yet played an adequate part in international arrangements for the provision of developmental aid. Our contribution to U.N. Technical Assistance programmes has been pitifully small, and our failure (with the United States) to support S.U.N.F.E.D. (The Special United Nations Fund for Economic Development) and to endow it with adequate funds, is a serious reproach against Britain's Conservative Government. The creation of the much more restricted Special Fund, though this has led to imaginative project work by Mr. Paul Hoffman and his staff, has not in any sense provided an adequate substitute for S.U.N.F.E.D., and even the work of the Special Fund is now limited—indeed virtually at a standstill—for want of the necessary finance.

Britain, therefore—as the Labour Party has frequently urged—should take the lead in proposing an imaginative and well-endowed international agency on the lines of S.U.N.F.E.D. to take on the task of world development in its many aspects. And every effort should be made to persuade the incoming United States administration that by far the greater part of America's contribution to world development should be channelled through such an international organisation, and not provided bilaterally, with all the disadvantages—from psychological impediments to the fear of military commitments—which have attended bilateral aid in the past few years.

Stabilising Commodity Prices

Scarcely less urgent is the need to provide effective international action to stabilise commodity prices. Such action is necessary if primary producers are to be given the security necessary to enable them to expand their production, if disastrous fluctuations in supply—with unsaleable surpluses followed by shortage and famine—are to be avoided, and if primary producing countries are to be safeguarded from catastrophic collapses in their overseas earnings and purchasing power.

As long ago as 1946-47, the F.A.O. set up a 16-nation Preparatory Commission, which, after four months' hard work, produced an imaginative report† on agricultural expansion and commodity price stabilisation. Action followed with the creation of the international commodity schemes in wheat, sugar and tin, but the broad problem remains unsolved. The need for much more imaginative action was underlined by the experience of 1957-58, when the fall in the overseas earnings of primary-producing countries, caused by the fall in commodity prices, far exceeded the sum total of economic aid provided by U.N. and U.N. agencies, and bilaterally, in those years.

I.M.F.

Another initiative which is required relates to the supply of international liquidity. Here again, while the International Monetary Fund has done some valuable work, it is operating on far too restricted a scale. Compared with pre-war days, the value of world trade has increased some four to five times, yet the total value of world currency reserves is hardly more than 50 per cent. above the pre-war level. The result is that a sudden crisis in the currency of one country leads to deflation, or quantitative restriction of imports, or excessive interest rates, which quickly lead to the export of currency crisis, or unemployment, to other parts of the world. One year, the problem currency may be the French franc, the next year sterling, another year the U.S. dollar, and so the problem continues. The I.M.F. should be re-negotiated, so that countries in difficulties can immediately draw up to, say, 40 per cent. of their initial subscription, national legislation should be altered so that contributions made to the Fund should rank equally with gold and national currencies as backing for internal note issues. I would hope also that before long the nations would agree to give the Fund powers to create international currency wherever it is needed in the same way that central banks can create additional purchasing-power for internal use.

Lastly, I turn to the problem of Britain's balance of payments surplus, for, unless we have an adequate margin of exports over imports, we cannot make an adequate contribution to world development, whether through international organisations or bilaterally.

Depressing Signs

Here the signs are depressing, at any rate for the immediate future. Britain needs a surplus on current account (i.e., on the balance of visible trade and current account invisibles) of at least £450 millions a year. As long ago as 1954, Mr. R. A. Butler, then Chancellor of the Exchequer, said that, having regard to probable investment commitments and the need to help underdeveloped countries, our surplus should be at least £300 millions. The rise in prices which has since occurred would produce an equivalent target figure today of £450 millions, and this figure was in fact quoted by the Treasury in its evidence to the Radcliffe Committee on Monetary Policy. Against that figure, our balance of payments on current account for the first half of 1960 (January-June), was £35 million, and since, for seasonal reasons, the second half of the year usually produces a worse figure than that for the first half, we shall be extremely fortunate if the total for the year as a whole does not involve us in a current account deficit. Moreover, the figures of our visible trade are worsening: the gap between our exports (valued f.o.b.) and our imports (valued c.i.f.) has been running in recent months at £90 to £100 millions a month: in the latest month for which figures are available, normally a seasonally favourable one, it was £110 million. Our declining net income from invisibles is quite inadequate to offset trade deficits of this magnitude.

Clearly these figures provide no margin. Indeed, our gold reserves in 1960 would have fallen very sharply had we not been attracting short-term capital (hot money) from abroad by maintaining very high

*My own views on this have been set out in *War on Want* (Association for World Peace 1953) and a longer work, *The War on World Poverty* (Gollancz, 1953), two of the earliest contributions to what is now a formidable weight of literature on the subject, ranging from United Nations and Governmental reports to privately-written books now available in many different languages.

†As head of the U.K. delegation to that Commission, I can confirm how much the ultimate Report owed to the very close partnership between the U.K. delegation and that of India, headed by Dr. Katju.



interest rates. This may provide short-term easement, but hot money attracted in this way can disappear almost overnight and face us with a grave payments crisis. Moreover, the high interest-rates are themselves damaging to industrial investment and thus limit our growth and our future ability to contribute to the world's needs.

Britain Lagging Behind

The fact is that, for several years, Britain has been lagging behind other European countries (and of course behind such countries as Japan and the Soviet Union) in the growth of production, in the expansion of exports, and in the proportion of its national product which goes to investment. Production is expanding too slowly, and too high a proportion of what is produced fails to make any contribution either to strengthening the industrial base or to improving our export effort. In 1959, after three years of stagnation, our production showed a big increase—though not big enough to enable us to overtake our principal industrial rivals—but it was largely concentrated on consumer goods. This year, therefore, we have once again been subjected to a credit squeeze, a disinflationary budget, and high interest-rates. In consequence, production has stopped rising: it has remained constant for 6-8 months and is now almost certainly falling. With a Government whose policies involve an over-reliance on monetary policies and whose economic theory lays down that industrial production has to be held down if we are to drive manufacturers into a keener export effort, there is little hope of any expansionist policies at a time when our exports are doing so badly.

Nor is the problem entirely one of the *volume* of production and investment. In the past few years—especially 1959, the year of the leap—the mainspring of the economy has been the expansion of consumer goods and the service trades, and too high a proportion of our inadequate investment effort has been devoted to factories, plant and machinery producing consumer goods. Thus we are not, in qualitative terms, building up the industries best fitted to meet the needs of countries such as India, who, in the main, do not want to import from us either consumer goods or machinery for making consumer goods.

Affluent Society

This problem was highlighted in 1958-59. In 1958, there was a minor recession which the Opposition said should be ended by a purposive drive to expand investment, particularly in basic industries. The Government continued their deflationary policies until—quite close to the General Election—unemployment began to develop. They then embarked on a consumer goods boom which in its train brought a boom in those capital goods which are needed to produce consumer goods. If your economy is based on the production of more washing machines, refrigerators and orange drinks, the plant and machinery you call into being will be directly related to the production of these things. We can export little enough of such equipment even to advanced economies in Europe or North America, and we have even less hope of exporting them to countries who need steel plants, fertiliser factories, machine-tool factories, and agricultural and civil engineering equipment. We cannot meet the export needs of the world with the overspill from an affluent society.

We shall not, then, be able to make our full contribution to world development without radical changes in our economic policy and industrial organisation. In particular, I would stress the need for policies designed to increase investment and to guide it more into basic industries, including export industries: This will mean big changes in fiscal incentives to investment and in budgetary strategy, it will also almost certainly mean more direct Government control of some of the key industries involved. It will mean priorities to hold back less essential developments—such as the heavy volume of speculative building of shops and offices. It will mean, too, a big change in monetary and economic policy generally.

In the overseas economic field, it will almost certainly call for greater assistance to the export of capital goods—e.g., through longer and cheaper credit terms. It will mean, too, control over private overseas investments. It is fantastic that we should be permitting the investment of several million dollars in property deals in New York, when we cannot provide the finance needed for much more essential developments in the Commonwealth.

We shall need, too, to be much more purposive in our export policy. I should like to see more aid schemes, whether national or international, worked out not, in every case, in terms of money, but, often in terms of goods—e.g., a million tons of steel in forms required for developmental purposes, or purchasing programmes for machine tools, or chemical or steel plant.

All these developments will be needed if we are to make our full contribution to world development. The big doubt in my mind is whether they will occur without a change in the complexion of the Government, or, at the least, without a major economic catastrophe the effects of which will be felt not only at home in Britain, but in many other countries that we should be helping.

ASPECTS OF THIRD PLAN

(*Concluded from page 24*)

our total requirements of foreign exchange, these magnitudes may appear to be small, but, if proper psycho-economic conditions are established, this avenue of finance may prove to be extremely rewarding. We must remind ourselves that a major part of economic growth in Canada was primarily financed from private foreign capital. Since private capital is governed mainly by the profit motive, the inflow of private foreign investment can be induced by adopting a proper economic policy. Double taxation agreements have greatly helped to improve the situation. Further attempts in this direction are called for.

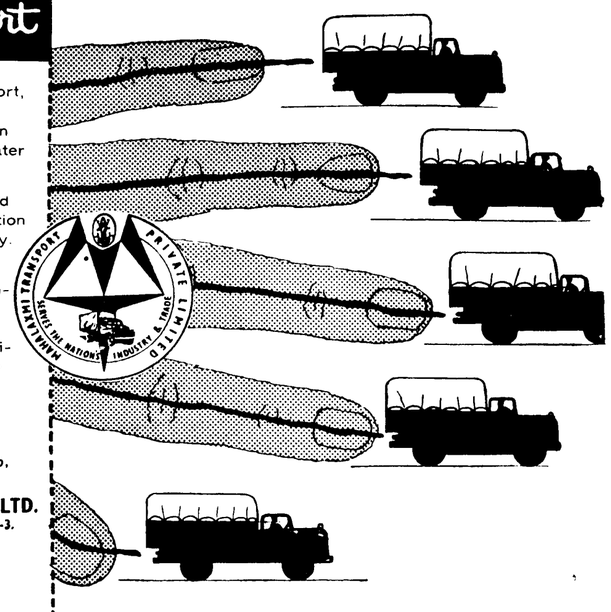
The success of the third Plan thus depends upon two important factors: (1) the expansion of agricultural output and (2) the availability of foreign exchange. We have already witnessed the adverse effects of structural imbalance occasioned by the lethargic growth of agricultural output. It caused a great strain on our balance of payments position and although P.L. 480 agreements have afforded temporary relief, from a long-term point of view, the effort of the third Plan will be rendered ineffective if agricultural output fails to expand in step with the demand. The requirement of foreign exchange is another important factor that would determine the success of the Plan. External assistance is not simply a source of capital needed to supplement internal savings but is a technical necessity. No doubt, the expansion of exports will greatly help to supplement the requirements of external assistance, but efforts should also be made to increase the inflow of private investment.

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REFLECTIONS ON OUR ECONOMIC PROGRESS

Private Enterprise Has Made Immense Contribution

By V. V. GIRI
GOVERNOR OF KERALA STATE

DURING the course of the last few months after my assumption of office as Governor of Kerala, I have had many opportunities to meet the members of the business community and labour unions and this gave me occasions to study the problems of industry and labour at some detail.

In recent years, it is found, the association of businessmen has been of much benefit in our rapid industrialisation programmes. There are no two opinions regarding the establishment and functioning of chambers of commerce of businessmen at the present juncture in the national economy. They are necessary for the smooth functioning of trade and industry and experience has shown that they can be of considerable benefit not only to the members of the chamber but also to the country in general. This naturally requires that the chambers should, apart from being the effective spokesmen of commercial interests, also keep the interests of the general community in mind. If they do that, I am sure they will receive their due recognition and the well deserved gratitude of the general public. In these days of overall Planning—when the economic development of the entire country in all spheres is undertaken (keeping in view various interests), chambers of commerce can voice the genuine demands of the private enterprise as also, with their superior knowledge of business acumenship, assist the Government in formulating, executing and fulfilling the different programmes and projects.

We are today at the threshold of the third Plan, and this opportunity can well be utilised to assess the progress of the second Plan—where we have succeeded and where we have not. It is to be admitted that, despite many difficulties we have obtained tremendous achievement. The index of industrial production since 1951—a period less than a decade—has shown an increase from 100 to 151.1.

Something Significant

Among the features of industrial development during the past decade which may be noted broadly, are those made in basic capital and producer goods industries, especially machinery and engineering industries. When the three new steel plants in the public sector are completed, the total finished steel capacity created will increase to 4.5 million tons, as compared with one million tons at the beginning of the first Plan, and 1.3 million tons at the beginning of the second Plan. There has been considerable increase in the production of essential industrial materials like cement, coal, aluminium, etc. The country is now producing steadily increasing quantities of machine tools and machinery for use in agriculture, cotton textile and a host of other industries A beginning has been made in the production of heavy electrical equipment. Chemical industries, including heavy chemicals, drugs and pharmaceuticals, fertilisers, etc., have also recorded progress. Under the second Plan, programmes for the modernisation of the jute and cotton textile industries have been successfully undertaken. In a number of industries, the import component has been materially reduced which is something significant.

While these are matters for which both the private and public sectors can take a legitimate pride, there are still many unresolved problems. We cannot genuinely claim that we have realised our goals completely. Why? Primarily, this is due to the external causes such as the tremendous growth of population, very low standard of living and national income, etc. It is also true that the increase in demand—due to the release of the pent-up forces resulting in a rush for goods—has also made it look as though nothing much has been done. Nevertheless, we are also partly responsible for the difficulties that are facing us now. The hoarding of stocks and the creation of artificial scarcity have accentuated the problem. I am, of course, fully aware that not all the traders or businessmen indulge in such anti-social activities, but it is regrettable that a minority of unsocial elements try to mar the fair name and good reputation of the entire business community. It would, therefore, be advisable if merchant chambers adopt a code of conduct and inculcate among their members to follow high standards of professional integrity. This task is of great importance when the country is beginning its industrialisation programmes and expanding its trade and commerce.

Future Prosperity

It is admitted on all hands that the future prosperity of India solely depends upon rapid industrialisation of the country. Of course, we have already launched various schemes towards this end of wiping out all traces of poverty, squalor and want. But these cannot be achieved by the mere waving of a magic wand. We have to infuse new ideas, and technical innovations, have to be adopted wherever it is possible and necessary.

Our economic and social structure, however, need not go through the same travail as many other countries, which are now accepted as "industrialised" and have reached a high level of economic prosperity, had to. We can advantageously take a leaf from the experience of other countries. Many of the full and dreary processes which they had to undergo could be conveniently by-passed and the modern technological and scientific developments have brought such remarkable improvements on many spheres which could be useful to achieve rapid progress. We cannot afford to follow the outmoded practices and will have to take all steps to 'catch up' with other progressive nations without any loss of time. The development which took others, say, nearly 50 to 60 years will have to be compressed within 10 to 15 years This is no mean task and calls for strenuous efforts on the part of every section of the community to work unrelentlessly.

The present economic system is no doubt to be transformed to suit the aspirations of the people. But till we attain finally our national objective of the "socialist pattern of society"—about this there should be no question—we have to accept mixed economy as necessary and the private sector as useful in meeting squarely the basic necessities of the people and providing them with the Fundamental Rights adumbrated in our Constitution.

I am one of those who believe that the private sector has also to play its part in improving the economic position of the people. It has a proud record of service in the past and is greatly responsible for the prosperity which we enjoy today.

A few days ago, I had an opportunity to preside over the function at the Spices Export Promotion Council. As I stressed then, the need for boosting our exports is of paramount importance if we want to accelerate the tempo of industrialisation. While we are greatly assisted by all the advanced nations financially through loans, grants and aids in the fulfilment of our industrialisation programmes, this undue dependence cannot go on for ever. The earlier this is stopped, the better it will be for all. Further, the loans have to be repaid as they fall due. What better way can there be to redeem this obligation than to augment the export of our goods? Already, we have established the State Trading Corporation and one of its basic functions should be to increase our exports and also act as the major importing agency in the country which would avoid unnecessary profiteering of middlemen. The chambers of commerce and similar other bodies must also explore the possibilities of stepping up our exports.

I have already referred to the many achievements we have so far made. These have become possible because the private sector has made its prominent contribution and this cannot be under-rated. It is rather unfortunate that needless controversy is being raised often, regarding the respective roles of the private and public sectors. Instances are not wanting when minor incidents or stray cases are quoted to belittle the contributions of either of them. I am of the definite view that the private sector has its own place, though it is to be understood that our overall objective is the realisation of a socialist pattern of society. This has the aim of bringing about a reduction of inequalities in income and wealth and attaining a more even distribution of economic power. The Industrial Policy of the Government has been stated in no vague terms and, within the allotted sphere, both the sectors should do their best to achieve beneficial results. While it is true that much remains to be done in providing satisfactory working conditions in the industries in the private sector, it is the public sector which should set the example to the former by providing ideal working conditions, quicker and efficient service and qualitative and cheap products and thereby engender a spirit of healthy competition. The private enterprise at this stage of economic development is a 'must' and is both complementary and supplementary to the public sector and this should be clearly realised.

Heavy Responsibility

The Draft Outline of the third Plan envisages an expenditure of about Rs. 11,000 crores which is more than the combined outlay of the first two Plans put together. The keynote of the Plan is to secure a marked advance towards self-sustaining growth. Indeed, it is an ambitious programme and calls for all-out co-operation of the people in achieving the targets of the various schemes. The members of the business and trading communities carry a heavy responsibility in this direction.

Frequently, businessmen complain of the burden of taxation. It should be realised that taxes are necessarily to be levied if we are to increase our internal resources. Apart from that, this is the price which the nation has to pay to achieve progress. Businessmen shall have to be prepared to make a substantial sacrifice if we are to rise up by our own bootstraps. Between the launching of the various programmes and their final consummation, that would obtain significant results for the people, there is the inevitable time-lag. During this time-lag bottlenecks occur, engendering a shortage of consumer goods. It is up to chambers of commerce and their constituent members to reduce the impact as well as remove the tension in the economy arising out of these shortages.

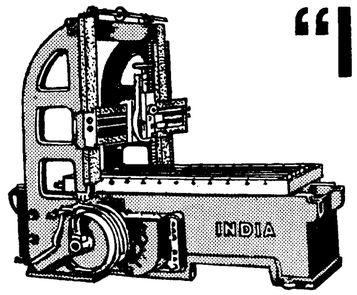
The third Plan has been drawn up keeping in view the practical needs as also the resources available in the country. It is emphasised that, in order to enable the long-term objective of raising national income and employment, the fundamental prerequisite is to lay the foundations for rapid industrialisation over the next 15 years. Stress has, therefore, been on basic industries like steel, fuel and power so as, within sometime to come, to meet the requirements for further industrialisation mainly from the country's own resources. This will be possible only if members of the business community cooperate in successfully realising our targets of production and mopping up our internal resources.

Industrial Truce

The third Plan will not produce spectacular and useful results, unless labour and capital, both in the private and public sectors, realise their mutual responsibilities and duties before expecting rights and privileges. They should consider themselves as partners in the industrial system. The talk of efficient production is meaningless, unless they believe in the motto "produce or perish." The effective way in which industrial peace can be maintained is not through the machinery of compulsory adjudication but only through the process of effective scientific and democratic organisation of associations of employers and workers and through the formation of joint industrial councils, conciliation boards, effective bipartite and tripartite bodies having technical experts, who will be able to assess the financial and other implications of the industries and who will be able to assist both the parties whenever a dispute is likely to arise or apprehended. It is not through strikes or lockouts but through friendly negotiations and mutual trust that disputes between employers and workers, can be satisfactorily settled. The weapons of strike and lockout should be the last resort in their armoury when all other attempts at settlement have failed. I suggest that, before the third Plan is taken up for implementation, a foolproof industrial truce must be secured with the fullest consent and agreement between the three parties.

(Continued on page 94)

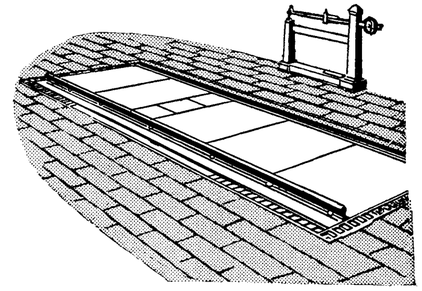
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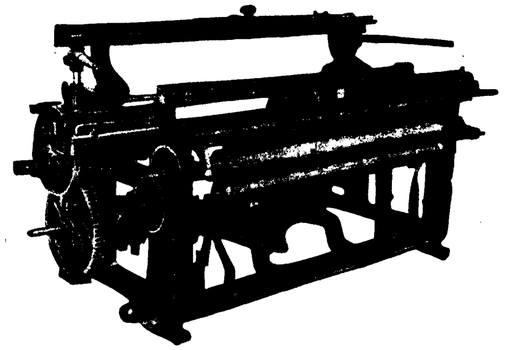
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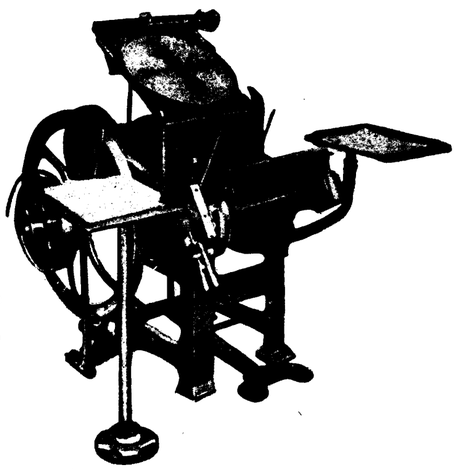
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Pattern of Aid to Underdeveloped Countries in the Sixties

The Desirable, the Feasible and the Probable

By WILLIAM E. SCHENK, Ph.D.

AS the title suggests, this paper explores several aspects of the general pattern of aid to underdeveloped countries to be expected for the decade 1960-70. Space limitations forbid detailed analysis of some points, while others, especially the quantitative problems of total cost, numbers of technicians and quantities of private investment which are desirable or possible, are dealt with in rather general terms since many of the factors affecting them are highly indefinite and unpredictable. Thus the approach taken here is primarily a qualitative one, with less emphasis on quantitative matters.

Economic development has, of course, been a preoccupation of Governments from time immemorial, though usually on the basis of the immediate urgency of problems and the expediency of solutions to them rather than through an organised systematic approach. The latter has become a feature of Government policy in many countries only since the close of World War II, with the launching of the Marshall Plan in Europe, of the United States Point Four Programme and the United Nations Technical Assistance Programme on a worldwide basis somewhat later, and of the Colombo Plan, originally limited to members of the Commonwealth, in 1950. Progress has been rapid, however, during the past ten years. Economic development has become a recognised, well-established and developed branch of economic science, the object of numerous academic as well as practical studies, and an accepted and in many nations a highly important aspect of national policy. At the same time, the various national and international mechanisms for supplying the aid required to stimulate national economic development are rather well developed; and a number of countries have evolved effective mechanisms for receiving and utilising the different forms of aid available.

Magnitude of the Problem

On 30th September 1960, 98 independent countries were members of the United Nations. Of these, 16 had become members during the preceding twelve months, besides four others since 30th September 1955. Since 1945, a total of 26 new nations had come into existence, not all of which, however, have become members of the United Nations. The *per capita* annual income in 1958 in 28 of the 104 nations for which data are available was $100 per year or less; in 41 nations it ranged between $100 and $200 and in 11 nations between $200 and $500 per year. In only 17 nations did it average between $500 and $1,000 per year, while in seven nations it averaged $1,000 or more. The total population of the 69 countries in the first two groups was about 1,260 million in 1958. About 610 million formed the population of the last group, and about 400 million lived in the 28 countries with average incomes of $200 to $1,000 a year.

In 1959, aid for economic development was being supplied to nations in the lower income groups—the underdeveloped nations—at an estimated total rate of about $9,910 million per year. Of this $3,291.8 million was supplied by public agencies, including multilateral agencies like the United Nations, the Colombo Plan, and the Organisation of American States, and the International Bank for Reconstruction and Development; this contributed $420.6 million altogether in grants and loans. Bilateral programmes contributed a total of about $2871.2 million. In addition, an estimated $417 million was contributed in loans and grants, partly in cash, partly in kind, by the Soviet bloc countries and Mainland China.

These various expenditures are increasing rapidly; it is estimated that, for the fiscal year 1960-61, multilateral agencies will disburse about $730 million in loans and grants, and bilateral agencies about $3,764 million. A further large increase, especially in loans, can be expected in 1961-62.

International private investment was moving at the rate of about $5,800 million per year in 1958, and carried with it substantial quantities of technical and managerial know-how and assistance. This figure probably increased by about 25-30 per cent. in 1959-60, and should increase steadily, though somewhat more slowly, in future years.

Types of Aid

This large quantity of financial and technical aid, however, is far from sufficient to speed up the processes of development in all underdeveloped countries rapidly enough to meet the demands of their growing populations for higher living standards. It is even less adequate to generate the growth of savings, and of capital through investment of savings, so as to enlarge national gross products fast enough to make development self-sustaining everywhere.

Aid to underdeveloped countries takes the two general forms of economic aid and technical assistance. Economic aid, of course, may consist of funds or goods, especially capital goods, and less frequently of raw materials. Technical assistance transmits, through advisory and training services, the intangibles of managerial and technical knowledge and skill required to carry forward various phases of economic development. It is needed principally in the two fields of organisation of new, and reorganisation of existing, governmental agencies and institutions, and of provision of technical know-how required for the operation of public agencies, especially in the fields of public health, education, agriculture and general public administration. Technical assistance for industrial and other production by private enterprise, in all its complex range of activities, is usually not easily provided by public agencies, but functions better as an adjunct of private investment from outside the receiving country. This nearly always carries with it advanced techniques of management, organisation and production processes applicable to particular industries; it is also available to indigenous investors who do not require foreign financial assistance, through such devices as patent licensing and leasing of machinery, and through service available from many international experienced and highly competent consulting firms in various countries.

At present, in a number of countries there does not exist a sufficient degree of political continuity and stability to make possible effective reception and utilisation of either economic aid or assistance. This can be overcome by most countries within a few years, but serious doubt remains as to the possibility of effective functioning of their governmental structure and its specialised agencies for economic development for several years to come. Accordingly, although they may not always realise it, ten to fifteen of the newly independent nations, and a few older ones, nearly all in the lowest bracket of *per capita* annual income, may require substantial technical assistance from outside in matters such as training and development of an honest and competent bureaucracy, the establishment of adequate statistical offices, agricultural research and extension systems, teacher training and other educational institutions, reasonably adequate banking, financial and tax systems, agencies to regulate or operate transportation and communications systems, and other governmental agencies necessary to guide the evolution of the economic infrastructure basic to economic development. At the same time, some thirty other existing nations require substantial amounts of technical advice and assistance in various of these fields in which their development has not kept pace with that in other fields. Altogether, as many as forty-five of the underdeveloped nations now in existence will need greater or lesser quantities of advice in these technical fields of governmental organisation, for periods of several years at least, and through the entire decade in many cases.

The Need for Plans

Obviously, both financial and technical aid can be more effectively used if they are employed as part of a well founded long-term plan of economic development worked out separately for each independent country. Such a plan should reflect the development objectives of the country in question, based upon reasonably accurate and extensive knowledge of its human, natural and capital resources, the stage of economic development and also of social development it has now attained, and the capabilities and limitations of its public and private executives, leaders and technicians. Plans for economic development can be either very broad and simple, perhaps limited to a few practical projects to create physical resources and to modify the natural environment, like road and dam construction, or can be highly complex and detailed statements of interrelated quantitative goals like India's second and third Five-year Plans. The immediate needs of many countries can be met by a rather simple, broad-scale plan to guide and stimulate economic and social development within limits consistent with goals clearly stated and well recognised by Government and private leaders in that country, implemented under annual work plans as part of yearly budgets specifying a few projects in major fields, for immediate attention. In many cases, national leaders will benefit by the assistance of skilled technical personnel from outside the country to assist them in selection of goals which are practical and in avoiding those which are visionary or too complex for attainment within a reasonable period of time, to establish goals which are consistent with the economic and political realities of the country's own situation as the country itself perceives them. This process should be accompanied by estimates of the indigenous and foreign resources, both physical and financial, required for their attainment. This planning stage of the development process will then lead naturally into execution of the plan, a stage at which additional technical assistance, backed in most cases by both public and private investment and technical assistance, will be needed.

Use of Technicians

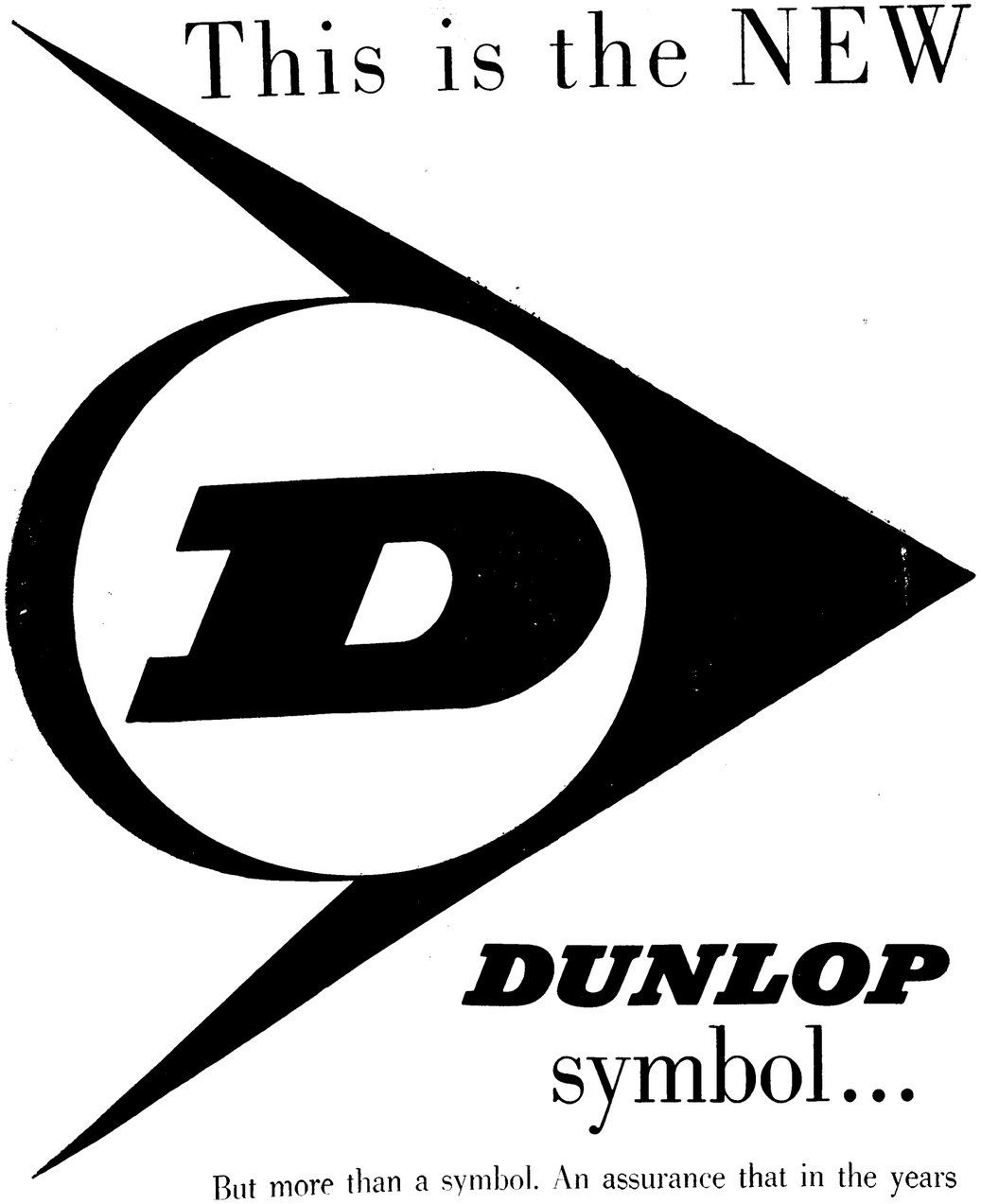
In some of these countries, and in others which have already made some progress in economic development, with or without the guidance of formal plans, the efficient use of resources for development will be greatly furthered by application of a somewhat more complex and exact planning process adapted to the particular situation of any given country. This will involve the use of larger numbers of technicians, both indigenous and foreign, for detailed investigation and evaluation of human and natural resources and ways and means for their effective development. Such more elaborate plans should rest upon reasonably extensive and accurate current statistical information regarding the demographic situation, productive activities, especially agriculture, commerce and industry, monetary, financial and trade statistics and other data as to the current condition of the country's economy. Information of this sort should be supplemented in many cases by inventories of such natural resources as minerals and mineral fuels, forest resources, water available for power and for irrigation, and land and its potentialities; and by geological and ecological surveys, evaluations of the legal and other aspects of the institutional framework of the country from the development standpoint, manpower studies, analyses of the educational and other systems for development of human resources, and many other special technical evaluations, which should be selected and applied in the light of full knowledge of the country's current situation and future outlook.

Planning of this kind can best be carried out in association by groups of indigenous and foreign technicians, the former providing local knowledge and experience and obtaining from the latter, where necessary, knowledge of up-to-date techniques and methods of dealing with indigenous problems in the various fields delimited by the country's previously selected goals for economic development. Once the necessary body of factual knowledge in various fields basic to development is available, it is safe to proceed to more detailed planning backed by organisational and budgetary measures necessary to carry it out. This is also a process in which outside expert advisers and specialists from the receiving country should participate jointly.

In a few countries, of which India, Brazil, the Philippines and Mexico are examples, factual knowledge of this sort has already been accumulated; and, in the case of India and others, has been effectively used as the basis for detailed programmes of economic development. In these countries the major

Note.—The author is Programme Economist in the United States Technical Co-operation Mission to India. This article, however, expresses only his personal views and does not necessarily reflect official views of any United States Government agency.

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problem is to devise organisations through which available knowledge can be properly applied; in some cases, technical assistance is also now needed for the further refinement and detailed development of plans, and, perhaps, in their execution, in some fields in which the receiving country has not yet developed indigenous technical leadership. Expert advice may also be useful regarding modification of the institutional environment so as to stimulate and channel private investment and initiative into lines of economic activity consistent with national objectives. This is particularly likely to be true in the field of investment banking and related financial institutions, some aspects of the tax system and of incentives to private investment.

"Means Test"

Countries in these groups will soon have determined their national development objectives sufficiently enough, or have blocked out certain major areas or projects basic to any further economic development clearly enough, that they are in a position to profit by more extensive financial assistance from outside the country. The degree of need of such assistance will depend primarily on the country's foreign exchange position and on whether it is in a position to increase its exports or save on other imports sufficiently to finance for itself those categories of capital equipment, parts and partly finished products, and raw materials essential to its development goals which it cannot produce for itself. There will, however, be many countries in the first group—certainly those which have not attained a situation of relative political stability—which can not yet make profitable use of large quantities of financial assistance. At the same time, countries in all these categories should take every precaution to make sure that all possible measures are being used to mobilise internally their own resources for such basic steps in development as construction of roads and other transportation and communications facilities, schools and public buildings, and for training bureaucrats and specialised personnel for education, the stimulation of agricultural production, and basic public health activities. The willingness and ability of any given nation to do so should logically constitute a sort of "means test" to determine the eligibility to receive outside economic or technical aid.

The principal public sources of aid are the United States, and its agencies, such as the International Co-operation Administration, the Development Loan Fund, the Export-Import Bank and many private enterprises and institutions; the International Bank for Reconstruction and Development, in association with many other financial institutions, public and private, throughout the world, and now with the new International Development Association; the United Nations, through its Expanded Programme of Technical Assistance and its recently established Special Fund; and such regional or otherwise more limited agencies as the Colombo Plan and the Organisation of American States, with its new financial counterpart, the Inter-American Bank. The Soviet bloc nations and Mainland China are currently also expanding their aid programmes. The sum total of international private investment, too, with a total volume of new investment worth an estimated $5,700 million in 1959, constitutes a very large and flexible source of many kinds of aid.

Patterns of Aid—the Desirable

With these points in mind, it is possible to appraise the pattern of aid which might be desirable through the decade of the 60's. Ideally, some 60 to 70 countries should receive technical aid in planning and in Government organisation and administration to carry out plans, and both technical and financial aid in their execution. The vast majority of these forms of aid would be supplied by the various public agencies, with the United States and the United Nations continuing to bear the greater part of the burden. However, from the ideal standpoint, during the decade, a progressively larger share of the cost of such aid and of the technical personnel and training facilities it requires, should be supplied by other more highly developed nations, especially the Western European and British Commonwealth nations and Japan. From the ideal standpoint also, it may be more desirable to have as much as possible of this aid supplied through the United Nations, if the rule of law is to be extended and the number of possibly overlapping and duplicating administrative organisations reduced.

In addition, throughout the decade and increasing in importance as time goes on, private investment and the various forms of technical aid which accompany it should become substantially more important and should be supplied by a steadily increasing number of the more highly developed nations to receiving nations which offer investment climates sufficiently attractive to induce private investment to commit their funds.

Technical Aid

The cost of technical aid in planning and in Government organisation and administration, together with advisory services in the execution of plans, is relatively small. It might average somewhat more than $1 million per year of external aid furnished to each receiving country, in addition to substantially larger amounts of funds and real resources contributed to these efforts by receiving countries themselves. Although need for the external part of this aid may diminish towards the end of the period for some countries, it is likely to increase for others, so that the need for external assistance in these categories is likely to remain at roughly the same level of cost, or to increase somewhat, during the decade. This implies a total minimum cost during the decade for this part of technical assistance ranging between $700 and $750 million.

This, however, is by no means the total amount of aid that is ideally desirable. Considerable numbers of schools, hospitals, and other public buildings, thousands of miles of roads, innumerable airports, seaports, and other communication facilities should be built; power generation stations, and almost equally expensive primary and secondary distribution networks for electricity should be constructed; vast areas of potentially fertile land be brought under irrigation and suitable cultivation practices taught to its inhabitants; and other physical construction projects be undertaken—the sum total of which is impossible to evaluate in terms of money and which will certainly outrun both the actual capital-building capacity of the countries which need them and the visible supply of technical and administrative personnel and advisers not available in those countries who would have to be obtained through external aid.

Obviously, in view of the demands for trained personnel to staff the Government agencies, educational and other institutions and the engineering firms required to carry out this enormous task, very substantial numbers of individuals would need up to several years each of professional training, much of it outside their own countries, and positions for which they were being prepared would need to be filled by technicians from outside if development is to begin immediately and proceed at an ideal rate. Thus, again, ideally, a number ranging from several hundred to two or three thousand key administrators and technicians should be supplied by external aid sources to developing countries to enable the latter to organise immediately for, and proceed rapidly with, their ideal development programmes. This would be in addition to the somewhat smaller numbers of technicians required for planning and for Government organisation and reorganisation measures.

The cost of these ideal development efforts is almost impossible to estimate with any accuracy. One possible method of doing so which has been suggested would involve determination of the average value of existing social capital and other capital installations in the more highly developed nations at the present time, and an attempt to relate these values to the population, area and geographic situation of each of the developed countries in turn. Practically, of course, it is highly advisable that this be done by each country as part of the early stages of its development plan. For a study like the present one, however, it is clearly impossible. A similar estimate might be made on the basis of the current rates of capital accumulation in countries which are now well developed, as related to their Gross National Product or *per capita* national income, which then could be extrapolated to approximate corresponding needs in less developed countries similarly situated geographically and from the standpoint of resources. This method also is difficult to apply and the results none too realistic. Other possible methods require extensive computation and detailed knowledge regarding each country's individual situation to an extent that makes it impractical to attempt such an estimate here.

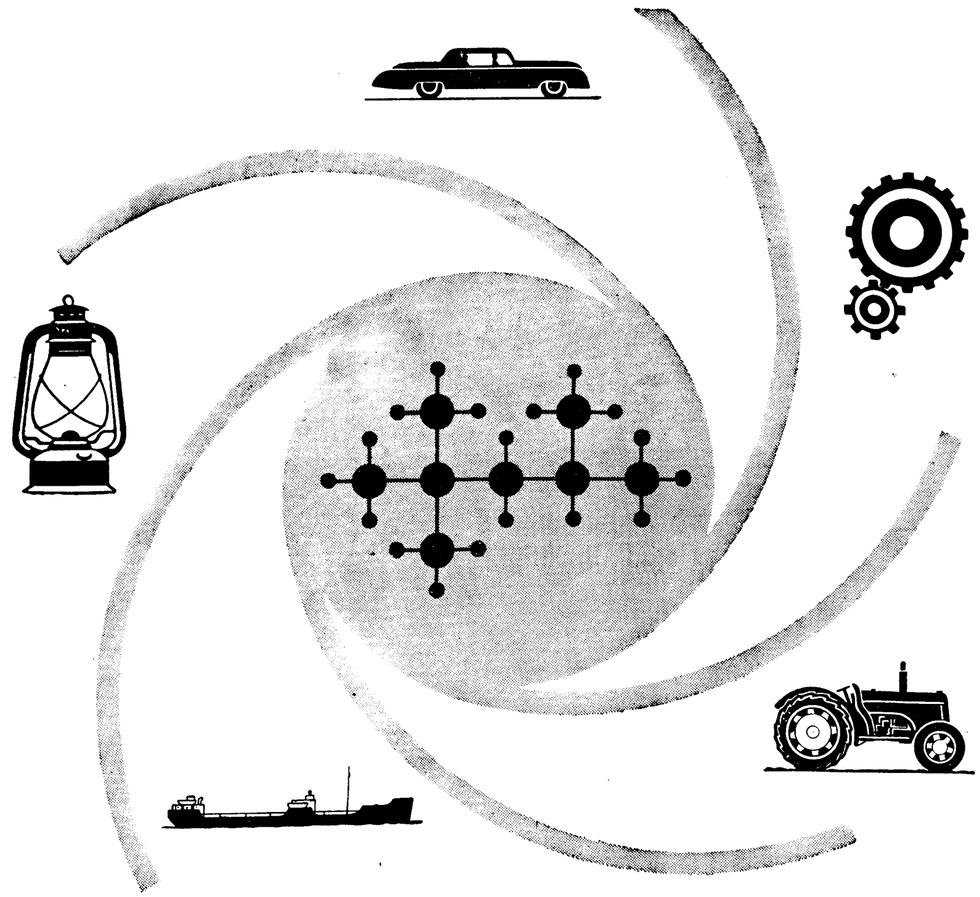
Patterns of Aid—the Feasible

In the light of what has been said thus far, it is evident that the aid level which will prove feasible through the 60's will depend fundamentally on the two factors of quantities of resources, both personnel and funds, available from both indigenous and external sources for development, and of demand for them in the form of the practical ability of underdeveloped countries to accept and utilise aid effectively. From the latter standpoint, it is probable that several newly independent nations will be unable to attain internal political stability rapidly enough, or to maintain it predictably enough, to expect to receive any, except emergency, aid, and perhaps aid in a few obviously beneficial projects, with profit to themselves and credit to the agency which supplies the aid. This situation may not last for more than three to five years, after which most nations in this group also might be able to receive and make good use of external assistance. Several countries outside this group will probably find themselves unable to take the necessary internal steps to co-operate effectively with outside aid sources and to make proper use of available aid. From a practical standpoint, than, during the period 1960 to 1965, some 60 to 65 nations may be in a position to receive aid with benefit. During the second half of the decade, some ten or twelve additional nations may attain a sufficient degree of stability to be able to receive larger quantities of aid effectively, and a corresponding number of countries may pass from the aid receiving class to the independently developing class of nations. Throughout the decade, then, some 60 to 65 nations will need external aid in varying kinds and amounts.

For 15 or 20 nations, the aid required will consist basically of guidance in the organisation and reorganisation of Government agencies, together with assistance, some of it on a substantial scale, in such fields as road, school and hospital construction, training of public service personnel, organisation and strengthening of finance ministries, and similar fundamental steps preparatory to larger-scale economic development. The technical assistance side of these operations should cost an average of, perhaps, $300 million per year in external aid, with twice that amount or more being contributed by the receiving countries themselves. The quantity of economic assistance actually used for construction and for training activities will depend primarily on the amount of external resources available for this purpose, which should increase gradually through the decade, but whose amount it is impossible to predict in a study of these proportions.

The remainder of the aid-receiving group, comprising some 30 to 40 nations, will each require probably equal or slightly larger amounts of technical aid to assist in specific reorganisation or training operations to strengthen particular parts of their Governmental structures and to assist in plans and the study and evaluation of resources basic to plans. Such nations, starting at a somewhat higher level of organisation for development than the first group, can also employ advantageously larger quantities of external financial resources and economic assistance than the first group and can contribute correspondingly larger amounts from their own resources. The total value of technical aid for this group might run from $800 to $1,000 million for the ten-year period, while the total value of economic assistance again will depend primarily on the availability from outside of the kinds of resources needed by the receiving countries.

Accordingly, the cost and rate of supply of development aid throughout the 1960's depends primarily on the supply both of technical personnel and assistance and of financial and economic aid that the supplying countries find themselves able to make available. War or any significant increase in international tensions, of course, can cause the diversion of substantial amounts of both funds and human resources from development assistance to military preparations. If it is assumed that the world political situation does not change substantially during the 1960's from the present one, the supply of experienced technical and administrative personnel will increase rather rapidly through the period; and, if productivity and the gross national product increase as they should, in the more developed countries as well as in many presently underdeveloped ones, it may be possible to divert a significantly larger part of the resources of aid-providing countries into channels for assistance to those less developed. Accordingly, by 1965, the total amount of public resources available through multilateral and bilateral aid agencies might increase perhaps 30 per cent. over the rate expected in 1960-61, to the rate of about 5,000 million dollars per year for both technical and economic assistance; and the total of



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private funds available for investment in underdeveloped countries should increase rather more rapidly, to a total annual rate of investment of perhaps some 8,000-9,000 million dollars.

Patterns of Aid—the Probable

To evaluate adequately the level of aid which is neither ideal nor merely feasible, but probable, other factors such as the probable trend in the world political situation must be taken into account. Another major determining factor will be the economic situation of the United States, which can no longer continue to supply the lion's share of public funds dedicated to technical and economic assistance to underdeveloped countries, and at the same time to supply three to four billion dollars per year of investment capital to other countries of the world. Funds available from the United States for these two purposes may either increase or decrease somewhat in the course of the decade, but any decrease should be offset by increased availability of funds from such countries as West Germany, Japan, and the Commonwealth nations. A few countries outside these groups are likely to find increasing funds available for loans to developing countries, and improved balance-of-payments situations, international agreements, and other measures should eliminate most of the few remaining restrictions to the free movement of funds to underdeveloped countries for development purposes. Among the underdeveloped countries themselves, increased production and new patterns of both production and consumption will greatly affect their foreign exchange positions, probably in most cases for the better, so that available external assistance can be used in alliance with greater quantities of indigenous resources.

Manpower for Development

Thus, the supply of both public and private resources of all sorts available for economic development assistance will increase substantially during the earlier half of the decade and at probably a still higher rate during the second half. The supply of technical manpower, specially trained or experienced in this relatively new area of activity, will increase somewhat, though sufficient specialists in a few fringe fields may continue to be scarce. In several fields, the shortcomings now apparent can probably be temporarily remedied as necessary by more extensive and more flexible use of private consulting firms, under the direction, where necessary, of experts from outside the receiving countries in association with the best available indigenous personnel. In other fields, it may be necessary to use relatively inexperienced personnel in many countries, with outside advisors where possible, or to allocate the services of the competent experts available on some sort of priority basis among the nations requiring their services. The strain on, and demand for, training facilities in both developed and underdeveloped countries is likely to be severe and, in several fields, these facilities may also require priority allocation.

Towards the end of the decade, however, as a larger body of experience is built up and shared among increasing numbers of professionals from both supplying and receiving countries, the situation as regards technical personnel should ease materially and, in a few lines of work, the supply may completely fill the demand. This development will greatly facilitate those remaining fact-finding or development planning operations which may have to be postponed, due to scarcity of personnel during the early period of the decade.

On the whole, then, the limited availability of technically skilled personnel may be a retarding factor during at least the first half of the decade, probably longer; but by, perhaps, 1967 or 1968, such manpower should be available in supplies reasonably adequate to meet requirements. In this case, the chief limitations on development in most countries may be weaknesses in their own Governmental structure, tax or financial system, or investment incentives to channel indigenous resources into developmental operations. These weaknesses in many cases will be due to political factors, and in others to the sheer length of time required to develop indigenous Governmental mechanisms and the personnel to operate them effectively.

Demand for Funds

It is obvious also that, if planning and economic survey bodies progress in most countries as rapidly as they should during the earlier part of the decade, the resulting numbers of specific projects and activities and their needs for financing are likely to outrun by far the quantities of investment funds available through normal indigenous saving processes or from international sources. In such cases, the nations in question will have to choose between limiting the rate of execution of their development plans—which may be unwise or undesirable from the standpoint of increasing population growth and demographic pressure in many countries—or the alternative of financing development to a large extent through deficit financing and the other inflationary processes which can be used as substitutes for an inadequate or ineffective financial and tax system, with its accompanying political and economic risks. The use of these techniques represents a gamble which, if successful in speeding development sufficiently to pay off the public debt generated by the use of such techniques, may greatly speed up the whole process of economic development. It must be remembered, however, that inflationary techniques, besides the apparent and immediate hardships they bring to the middle and lower income brackets, are likely to distort the pattern of ownership of both financial and real resources in a manner that can lead to serious political and economic difficulties later on, as the less privileged class begin to demand a larger share of the rewards of development. For these and other apparent reasons it is generally wiser to avoid the inflationary techniques of financing development. Nonetheless, circumstances are certain to arise when national leaders will yield to the increasing pressure of demand for economic development through inflationary means. This is a danger to which the international organisations and assistance programmes will need to be particularly alert throughout the decade, and probably later.

The disparity between demand for development funds and facilities, on the one hand, and the available supply of funds, personnel and training facilities, on the other, will also lead rather soon to priority allocations among receiving nations which might be based on several alternative policies. It is only possible to speculate as to the criteria upon which such allocations may be established. If the Soviet bloc and Mainland China are able to expand significantly their technical and economic assistance programmes, the basic criteria for such priority allocations will very probably become political ones, with both sides continuing to use their economic and technical assistance programmes as instruments in the cold war. In that case, military considerations may also influence, to some degree at least, the allocation of aid.

Another leading possibility is that the United Nations and the different multilateral regional organisations will become more and more prominent, handling progressively larger percentages of both technical and economic aid through their various agencies, a line of development which can also be strongly influenced by political and military considerations growing out of the cold war. So many intangible factors may eventually affect this possible line of development that it can only be mentioned here.

Certainly, one of the leading considerations upon which allocation of aid will be based in the future is, as has been pointed out above, the ability and the willingness of receiving countries to utilise any aid allocated to them in an efficient and effective manner, first to demarcate, and then to attain progressively, the objectives set forth in each country's particular development plan. Unless political considerations dictate otherwise, aid is highly unlikely to be allocated in more than token quantities to any country which lacks political stability, a reasonably efficient and honest bureaucracy, an adequate financial and tax system, and the other basic essentials, pointed out above, which permit its development to be soundly planned and properly executed. Many of the recently independent nations may require early assistance to attain this degree of eligibility for aid, a need which the United Nations at present appears best qualified to meet as a world-wide mechanism dedicated to the rule of law and the orderly progress of economic development.

Contribution of India

It is interesting to speculate briefly as to India's situation with regard to economic and technical assistance through the decade. It is immediately apparent that India, with a very large population and very low per capita annual incomes and living standards, will unquestionably require substantial amounts of certain types of aid throughout the 60's, although the outlook is that her needs should decrease progressively through the second half of the decade and that she may be able to continue on the basis of self-generating development forces, beginning in the early 1970's. In the meantime, to develop her great body of natural resources, including the human ones, to insure that adequate productive techniques are applied to the land and in the factories as well as in commerce, in the services and in Government, would appear to be a task requiring all of India's leadership and all of the technical resources at her disposal to achieve.

This is, however, correct only as a general statement. It is true that very great amounts of resources from abroad, in the form of hard currency and of real products of many sorts, must be supplied, if India's rate of development is to outrun the increasing pressures generated by the absolute numbers of the increasing population, multiplied by the steadily growing volume of wants and needs felt by increasingly large groups within the population. The pressure on the limited numbers of certain types of trained personnel, and on managers and executors in certain fields, may become too great to permit them to perform effectively, and supplementary advisory personnel at this level may be needed from outside India. It is also unlikely that, during the next few years, the private sector can develop as rapidly as would be desirable, unless substantial amounts of foreign exchange can be found to finance imports essential to its maintenance and desirable expansion. There will be a continuing challenge to colleges and universities to turn out graduates of progressively higher quality in many fields, a challenge which, in view of the very large number of students seeking admission to these institutions, may be difficult to meet. Some solution for this problem is imperative, such as a university offering graduate training at high levels in various fields and under most rigorous standards of student performance. At the other extreme, the sheer problem of sufficient numbers of such trained personnel as agricultural extension agents is a staggering one.

In view of these internal problems, it hardly appears that India can expend much effort to further economic development in other countries. India, however, has already made substantial contributions of both funds and personnel to the International Monetary Fund, the International Bank for Reconstruction and Development, and especially to the United Nations and its various specialised agencies, as well as the services of mediators in international political crises, especially the Korean truce talks and the settlement in Viet Nam. She has contributed a number of distinguished specialists to the technical staffs of these groups, among them the Sub-Director General of the United Nations Educational, Scientific and Cultural Organisation, a president of the World Health Organisation, and other world leaders, and now a leading official of the United Nations group on duty in the Congo. There are numerous technical fields in which India can spare some personnel for assignment on developmental efforts outside of India, personnel whose own experience with India's problems has given them an awareness and an insight into similar problems existing elsewhere which is often hard to find among technicians from more fully developed nations. This is particularly true of India's distinguished planning staff, both as to its leaders and many of its technicians, and applies also to other specific technical fields such as agriculture, education and public health. India's well developed system of public and private finance, too, is worthy of emulation from abroad and could probably afford to lend a number of experts on temporary detail to other countries to assist in solution of their problems.

Probably the most outstanding contribution India could make, however, to the progress towards development of other nations is to enlarge her successful training programme under the Colombo Plan to receive nationals from other countries outside the Plan, perhaps primarily through the United Nations and also through the United States Technical Assistance Programmes. India has already contributed successfully to the training of over 1,000 non-Indians under the Colombo Plan. Given her rich background of experience and success in planned progress towards economic development goals, if enlarged facilities for training of foreign nationals could be arranged, an appropriate and valuable contribution could thus be made by India to world economic development and the political progress which accompanies it. Although direct financial contributions by India to the cause of international economic development must continue to be limited through the 60's, if India can share with other countries her great wealth of development experience and the trained personnel which represents it, through both loans of special personnel abroad and their supervision of training of non-Indians inside the country, India is capable of making a significant contribution to the cause of international economic development.



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THE ECONOMICS OF SIX *PLUS* SEVEN

Will The European Moves Help Underdeveloped Areas?

By GEORGE O. HOSKINS, O.B.E., B.Com., M.Sc. (Econ.), C.A.I.B., F.R.Econ.S.

LONDON, *2nd December*

IN 1946, Sir Winston Churchill made at Zurich the momentous speech which started the crusade for a United Europe. Eleven years later, he was asked to address the United Kingdom Council of the European Movement and he said:

> "My message to Europe today is still the same as it was ten years ago—unite. Its security and its prosperity lie in unity. Much has already been achieved and we are on the verge of further big decisions. We all welcome the formation of a Common Market by the six nations, provided that it is a step towards the creation of a free trade area, to which the whole of free Europe will have access. If, on the other hand, the European trade community were to be permanently restricted to the six nations, the results might be worse than if nothing were done at all, for them as well as for us. It would, I fear, tend not to unite Europe but to divide it—and not only in the economic field."

Three years later still, Sir Winston's fears appear to many to have been realised, for, of the sixteen nations which joined to form the Organisation for European Economic Co-operation, six have for eighteen months been grouped into the Common Market (European Economic Community). Seven have for a year banded themselves into a free trade area (European Free Trade Association) and three—Iceland, Turkey and Greece—remain outside. The G.A.T.T. (General Agreement on Tariffs and Trade) which still claims international allegiance appears to be operating in a world moving into tight and exclusive groups, for the idea of a Free Trade Area is now being canvassed in Central America and also among the Latin American countries.

The Purpose

The purpose of this article is to examine the pattern of trade which is emerging in Europe, and to see whether Europe is in fact moving towards groupings which will be restrictive of international trade or which will be liberal and expansionist. For the less-developed countries of the world, the answer is of great practical importance.

The O.E.E.C. was developed initially as a bulwark against Russian economic penetration and the U.K. wished to hold it as such—a loose organisation of European countries which she could dominate. Such an arrangement suited her very well, for she was traditionally independent, linked economically only with the Commonwealth, and allied in fancied partnership to the United States. The talk of a "third force" heard in Paris and Bonn and indeed even in London, left the British Government cold. The U.K. and the Commonwealth were all the "third force" the world needed —*divide et imperare* remained the Imperial motto. But there were renascent forces in Western Germany and France which appreciated the force of Sir Winston's thesis —on economic and on political grounds. They wanted to unite Europe wholly and entirely.

The U.K. had then three choices —to oppose integration which she could not as a "good European" easily do: to join the Common Market, which she could not as a subsidiser of domestic agriculture and a "good Commonwealth" member easily do; to attempt to divert the movement for integration into more nebulous channels. When this attempt failed, the U.K., confronted by the reality of an independent "third force," sought to rescue her position in Europe by organising the Seven into a Free Trade Area while continuing to work for some kind of integration behind the scenes. The division is not, therefore, by any means necessarily permanent, but, accepting it as a fact for the present, what picture does it give?

First of all, what sort of market does the Common Market present? The following table shows E.E.C. imports by origin:

(Value in £ million)

	From E.E.C.	From E.F.T.A.	From rest of world excluding O.E.E.C.
Food, etc.	403	184	1,181
Raw materials ..	959	428	2,361
Oils, fats, chemicals ..	223	109	263
Manufacturers ..	1,733	774	572
Total ..	3,318	1,495	4,377

The E.E.C. draws, therefore, a substantial amount of its imports from within the group, a small percentage from the E.F.T.A. and less than half from the non-E.E.C. world. The picture for the E.F.T.A. is rather different:

(Value in £ million)

	From E.E.C.	From E.F.T.A.	From rest of world excluding O.E.E.C.
Food, etc.	236	194	1,470
Raw materials ..	497	326	1,718
Oils, fats, chemicals ..	200	89	178
Manufacturers ..	1,098	485	461
Total ..	2,031	1,094	3,827

The E.F.T.A. draws only about 15 per cent. of its imports from within the group, draws twice as much from the E.E.C. and well over half from the non-O.E.E.C. world.

Finally, if we look at the significance of the two groups to the Commonwealth, we find that, in 1959, the E.E.C. countries took nearly £1,300 million of imports from the Commonwealth, while E.F.T.A. took £1,800 million. But only a small part of this latter figure are imports by the countries other than the U.K.

Close Look

Let us take a close look country by country at the possibility of expanding British and Commonwealth trade within the E.F.T.A. First, we note that all quotas are to be ended by 1969—*but* that, in practice, there are few quotas left anyway. Secondly, that all tariffs—industrial only —are to end in 1970, *except* fiscal duties. This means that Norway, having declared motor import duties to be fiscal, does not have to reduce them. Another former large British export to Norway, ships, does not carry duty anyway, so no advantage will be granted there.

Austria: Only does 3½ per cent. of her trade with the U.K. and 50 per cent. with the Common Market. Her tariffs are low, but there will be gain from the reduction of tariffs on textiles of up to 20 per cent. *ad valorem* and on manufactures of up to 30 per cent.

Denmark: Does one quarter of her trade with the U.K. (including one quarter of her agriculture exports), but Germany now takes one-fifth of her agriculture exports and sends as many imports in as does the U.K. Only 4 per cent. of Danish imports are restricted by quotas; but there are prospects for increasing U.K. exports of textiles, chemicals, iron, steel, etc., now subject to duties of up to 20 per cent. and of machinery which bears duties of up to 15 per cent.

Norway: Takes 13 per cent. of her imports from the U.K. and sends her 20 per cent. of her exports. Her textile imports bear duties of 25 per cent. and machinery imports anything up to 25 per cent. In these fields, Britain should gain.

Sweden: The U.K. is second to Germany as a market, but, since textile imports bear duties up to 20 per cent. and a range of manufactures from 10-18 per cent., there is a prospect that Britain will gain more advantages.

Switzerland: Does 6½ per cent. of her trade only with the U.K. and 50 per cent. with the E.E.C. She anticipated E.F.T.A. tariff reductions by a 50 per cent. increase in January last, but on a range of manufactures and textiles the U.K. should ultimately enjoy tariff advantages. For instance, half the Swiss import of cars comes from Germany and only 8 per cent. from the U.K. and the tariff reductions will favour the U.K.

Portugal: Does 12 per cent. of her trade with the U.K. and rather more with Germany. Tariffs are high and Britain could gain on a wide range of manufactures.

All these figures demonstrate that, while the E.E.C. is a serious and viable unit, the E.F.T.A., whose arrangements extend only to industrial products, is of no real significance. *Except*, and this is important, that it is a token of recognition by the U.K. of the need for an economic grouping of the European nations, a token of her desire to lead some of the European nations into some integration—perhaps into the Common Market.

Position of G.A.T.T.

But what, one may ask, of the tariff advantages to the U.K., over the next ten years? At this point, we must consider the position of G.A.T.T. The G.A.T.T. aims at a progressive tariff reduction between all member-countries on a most-favoured-nation basis. The Common Market got G.A.T.T. acceptance, because it claimed to be a Customs Union embracing "substantially all the trade" of the members. Even so, G.A.T.T. doubted the *bona fides* of E.E.C. on agricultural products, believing that the protectionist devices would be used by each country to save its own peasants from competition. The Common Market was obliged to agree to international consultation, if there should be repercussions as a result of the discrimination which E.E.C. members could exercise towards the rest of the world.

The E.F.T.A. gained G.A.T.T. acceptance for industrial products and since agricultural products were excluded anyway there was no further problem.

But G.A.T.T. is wary of what may happen if, as a result of the British Government's angling, there should emerge some sort of European Preferential Association linked with the Commonwealth. The non-European and non-Commonwealth countries shudder at the thought, but Sir Winston Churchill, founder of the European Movement, would regard this as a great step towards a united Europe and away from the fear of a divided Europe which haunts so many at present.

On the other hand, G.A.T.T. considers that both E.E.C. and E.F.T.A. will further G.A.T.T. aims. The Executive Secretary (Mr. Eric Wyndham White) argues that E.E.C., as a strong industrial group, is not likely to need import protection and may be inclined to continue lowering her tariff wall to the rest of the world. Similarly, the E.F.T.A. countries, which are presumably prepared for greater competition from U.K. imports, may well extend the same competition to non-E.F.T.A. countries. If this development does take place, then while G.A.T.T. will be glad to see her principles extended, it will wipe out the tariff advantages which the U.K. expects to gain over the years in exports to E.F.T.A.

The E.F.T.A. presents one more problem to the G.A.T.T.—the agricultural protection on which the U.K. and indeed many of the other members insist is a hindrance towards a world liberation of trade. The E.E.C. have removed the barrier for themselves; the E.F.T.A. still maintain it even against their own members. The G.A.T.T. would like to see such protection confined to internal deficiency payments to farmers and peasants to compensate for tariff abolition, but, at this point, G.A.T.T. falls foul of her ancient bugbear—Commonwealth preference.

Less Developed Countries

This problem of agricultural protection in the industrialised countries is seen by G.A.T.T. as the major problem in the way of the progress of the less developed areas. If the work of G.A.T.T. were to be stultified by the growth of E.E.C. and E.F.T.A. into protectionist groups, then it would be a hard day for the less developed areas. The protagonists for G.A.T.T. insist that only if, alongside the rapidly integrating E.E.C. economies, there continues a general process of integration of the world economy, can the less developed areas pursue at reasonable speed their road to progress.

It is noteworthy that the rapid growth in the industrial countries since the war has not been accompanied by a comparable expansion in the exports of the less developed countries. Synthetic products and economies in usage have contributed to this. On the other hand, the less developed countries suffer, because their import needs have grown. These countries, taken as a whole, have a total deficit on their annual balance of payments of over £1,000 million, which is covered by foreign aid. But the deficit could, it is estimated, be quadrupled in the next fifteen years, as a result of the pressure on the part of these countries to expand their industries and raise their living standards. Economic aid will not increase at anything like this rate. Hence development must be assisted by (*a*) an increase in commercial and non-commercial capital investment and, most important, by (*b*) a change in the protectionist policies of the

industrial countries. In short, the export earnings of the less developed countries must be increased.

This means that the less developed countries must get more export-minded and that the industrial countries must adopt a more liberal attitude towards agricultural imports. It has been said that to extend development aid with one hand while restricting trade with the other is to beat a man with one hand while dressing his wounds with the other.

One thing which the E.E.C. and E.F.T.A. countries could do is to alter their fiscal policies to permit the expansion of demand for tea, coffee and cocoa. All these commodities are inordinately expensive on the Continent where they contribute to the Exchequer much as wines and spirits do in the U.K. But, while there are social reasons for restricting the consumption of alcohol, there is none for restricting that of the tropical commodities named.

The Solution

Next, assistance could be given by price stabilisation for primary commodities. The British Government, at the instigation of the importers, took great pride recently in defeating the attempts of other countries to introduce a price stabilisation scheme for cocoa. Indeed, the U.K., as a great importer, prefers to play the market and exploit disorganised supply. She fears that price stabilisation schemes mean a ganging up by producers against consumers. But each product must be considered on its merits, the objective being to secure the best markets for the primary producing countries compatible with a fair deal for the importers. All manner of different devices may be used to satisfy these requirements—but a complete absence of organisation is unlikely to be the best in any case.

Restrictionist policies should also be abandoned towards semi-processed materials, and the next step would be to adopt more liberal import policies, towards the simpler manufactures. Without policies of this sort, which it is the general aim of G.A.T.T. to pursue, how do the industrial countries think they are going to help the economies of the less developed countries? Or would they prefer to pump in capital equipment free? But then this capital equipment will be used to produce goods, a part of which it would be economic to export in exchange for other more complicated manufactured goods.

The same sort of adjustment which the members of the Common Market are prepared to make between themselves must therefore be made between the industrial and the less developed countries.

The technically advanced must be ever advancing, leaving room at the bottom for the less skilled to take over the vacated processes. This is only what takes place as a result of competition inside each individual economy; it is what will be taking place on a vast scale inside the Common Market over the next ten years.

That is the importance of what is going on in Europe today to the world: it is not just the spectacle of the forming of a "third force," or of large economic groupings—it is the relation between these groups and the outside world which is going to matter. Will E.E.C. and E.F.T.A. stay within their ring of fences, or will they pull those fences down, thereby both unifying Europe into a vast Common Market and, through liberal import policies, giving genuine assistance towards the development of the primary and less-developed economies?

PROSPECTS FOR FOREIGN AID

By A. D. SHROFF

PRESIDENT, FORUM OF FREE ENTERPRISE

IN a country like ours, when we go in for big plans with the objective of large-scale and rapid economic development, we have to think of resources. Our needs are practically unlimited. But all the needs cannot be fulfilled all at once. The needs will, therefore, have to be ascertained in terms of priorities and these priorities can be determined in terms of the resources available to us.

In a poor country like ours, with a *per capita* monthly income of about Rs. 25, the resources cannot obviously be very large. As we are economically-underdeveloped, it is a matter of necessity that a large part of our programme, particularly for industrialisation, can only depend upon our ability to get plant, machinery, technical know-how and services from countries which are industrially advanced.

When we became politically independent, our total foreign resources were in the neighbourhood of about Rs. 1,300 crores. Unfortunately, owing to the continued scarcity of foodgrains in the country, a tremendously heavy drain was made on our foreign exchange resources in the earlier years of independence to buy food from abroad. In the year 1944, the Bretton Woods Conference was convened which led to the establishment of two very important institutions, namely, the International Bank for Reconstruction and Development (World Bank), and the International Monetary Fund (I.M.F.). At that time, as the thing that was worrying us in India was what was going to happen to our foreign resources, we tried our utmost to interest the wealthier countries of the world, and particularly U.S., to make some provision in the constitution of the International Bank for Reconstruction and Development and the International Monetary Fund by which we could make our large sterling balances convertible into gold or dollars. We did not succeed. At that time, it was a matter of great concern to us. Things have changed since then and now the matter of our concern is how to augment our foreign exchange resources.

Sad Underestimation

We started the second Five-year Plan with our foreign balances standing at about Rs. 746 crores. The Planning Commission estimated that, by the end of the second Plan, our sterling resources will be reduced by about Rs. 200 crores. As a matter of fact, in the second year of the Plan, it appeared that, instead of our being left with Rs. 546 crores at the end of the Plan period, we were already running short of funds. We, therefore, started making approaches to the various friendly countries of the world and, particularly the World Bank, to put us in sufficient funds to make possible the implementation of the second Plan. We have seen from the reports appearing in the Press that, at a very early stage, the Government was concerned to see, leave alone the second Five-year Plan, that at least the "core" of the second Plan was preserved. Within a few months, it was not the question of preserving the "core" of the second Plan, but the "hard core" of the Plan. There was, obviously, a very serious underestimation on the part of the Planning Commission regarding the foreign exchange needs to implement the various targets of the second Five-year Plan.

A few figures will show how we have fared in respect of our foreign exchange resources and what foreign aid has been able to contribute to the implementation of the second Plan. Foreign aid authorised for the second Plan up to August 1960 is Rs. 1,484 crores. All this promised aid has not yet come, but still it is considered that the total foreign aid for the second Plan will run into Rs. 1,484 crores. Of the total aid authorised so far, 57.7 per cent. came from the U.S., and the World Bank lent Rs. 315 crores. India has been very fortunate in having in the President of the World Bank, Mr. Eugene Black, a very great friend, who has been convinced that, unless India made planned progress, it might itself constitute a source of danger to the stability of the world at large. Being convinced of that, he has not only persuaded his own Bank to lend a substantal amount of money to India, both to the private and public sectors, but he has also been mainly instrumental in persuading the U.S. Government, the U.K., Canada and, recently, West Germany, to make available to us increasing amounts of foreign aid to make possible the implementation of the second Plan. Out of Rs. 315 crores advanced by the World Bank towards foreign aid, nearly one-third of the amount has been lent to the private sector.

Only Two Ways

There are only two ways in which we can obtain foreign exchange resources. One is by securing a favourable balance of payments on our own trade. If we do not succeed in doing that, we have to borrow money from abroad. India has been fortunate that, through the good offices of the World Bank, it has been able to secure substantial amounts of money. But even now, our country is passing through a very serious foreign exchange crisis. There are still a few months to go before we finalise the third Plan. We have already made very large commitments abroad for purchase of plant and machinery in respect of our various industrial projects both in the public and private sectors.

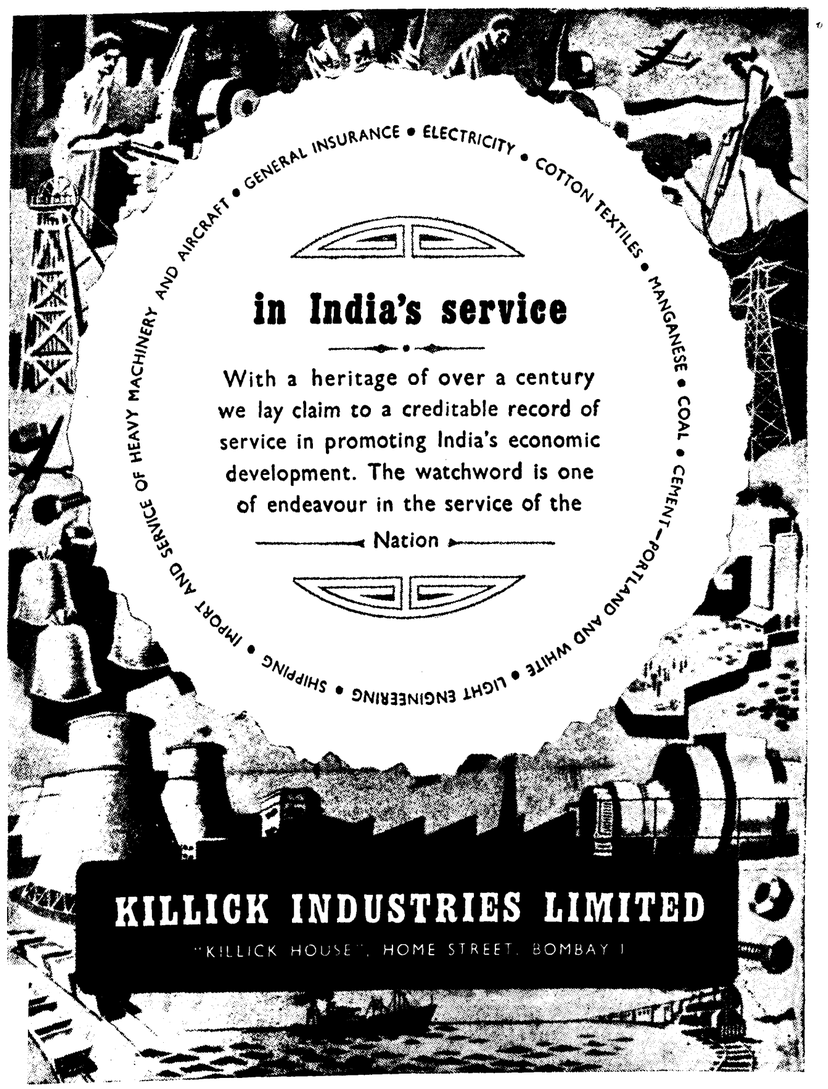
One very important lesson has been taught to us by the foreign exchange crisis. One fallacy which has been committed by the Planning authorities in this country is that, as we industrialise, the need for imports will diminish. On the contrary, what has been found in actual experience is that, as we go on creating additional industrial capacity in the country and so long as India has not attained a stage of complete or near self-sufficiency, every increase in additional capacity in the country causes a further drain on foreign exchange resources by increasing the needs for buying from abroad essential raw materials, components and spare parts for the plants and machinery.

This can be illustrated from what happened in actual experience. We decided in the second Plan to increase our steel capacity to six million gross tons. Increasing the steel capacity does not simply mean bringing additional plant and machinery from abroad to make possible the production of steel: it also means that, if we want to put this plant to its maximum use, we need a number of things which are not available in the country and which must be imported from abroad to keep this machinery going. The Tata Steel Company, for instance, has increased its output from 1 million to 2 million tons recently and produced a variety of steel goods. One thing it produces is galvanised sheets which are used for roofing, particularly in the rural areas. Whereas we can produce steel from the raw materials which are available here, namely, coal, iron ore, and limestone, etc., we cannot turn this steel into galvanised sheets unless we have spelter. Spelter is made out of zinc. India has not sufficient supplies of zinc and does not make even one ton of spelter. Thus, one company alone needs about Rs. 70 lakhs worth of spelter to make possible the production of galvanised sheets. Thus, every increase in additional capacity makes heavier demands on our foreign exchange resources.

I recently visited a small factory in Bombay which has embarked on the making of razor blades. These blades can only be made out of a very fine type of steel, which India is not producing. That very specialised kind of steel is made only in Sweden and the U.S. It costs something like Rs. 8,000 per ton, whereas ordinary steel costs about Rs. 620 a ton. We have not got sufficient foreign exchange to buy this specialised steel from Sweden or from the U.S. for maintaining the full installed capacity of the razor blade factory. Hundreds of such illustrations could be given to show that, in planning for increased industrial capacity, we have also to plan for ensuring a regular flow of essential raw materials, if we wish to make use of the additional capacity to the maximum possible extent.

The difficulty is that those who are prepared and willing to support India in our development programmes after all do not run charitable or philanthropic institutions. Money is lent to us on certain specific and well assured securities. We cannot get loans to buy supplies of raw materials because raw materials are consumed and, therefore, there is no security left against loans. If, however, this purpose is to be served, India must get clean, untied loans. But, the loans which have been given to us so far are loans on the basis of specific projects. The problem which is assuming very serious dimensions in this country is that of getting foreign exchange to enable us to buy certain types of cotton, paper pulp, high grade rayon pulp and a hundred and one other things to make possible the continued running of our industries.

The country faces a dilemma. We must either increase exports to such a substantial figure that the resources released enable us to import all the essentials, or we should be prepared to cut down our programme of further expansion. Otherwise, a very serious problem will be created. It is not sufficiently realised that, although our needs are large, we must also measure the capacity of the lending countries. Apart from India, there is a long and increasing queue of borrowers in different parts of the world who are knocking at the doors of various lending agencies in the Western countries. In view of this, the capacity of the lending countries in terms of the needs of a country like India is proportionately curtailed. It, therefore, appears less likely that, in the coming years, we should be able to get from abroad such amounts of money as we estimate are required to implement the third Plan.



EVOLUTION OF MONETARY POLICY IN INDIA

By S. L. N. SIMHA

MONETARY policy is essentially the regulation of the amount of money in the economy—comprising currency as well as bank money—with a view to influencing the aggregate demand for goods and services. The impact of money on the economy is felt in four ways, namely, through changes in its volume, velocity, availability and its cost. Monetary policy has little direct control over the velocity or the rate of turnover of money; therefore, it endeavours to operate through the other three elements.

It should be pointed out that monetary policy covers not only the policies of the central bank but also those of Government; in fact, the central bank is essentially an organ of Government, though it enjoys a certain quasi-independence. In fact, monetary policy can be operative even in the absence of a central bank. Policies relating to the issue of currency and coinage—the monetary standard and the statutory reserves for the issue of currency—as also operations and policies regarding exchange rates and foreign exchange transactions constitute important aspects of monetary policy. Besides, in the last 20 years, the operations of Government in the sphere of Government debt have had substantial monetary significance. Today, in many countries, public debt is managed by the central bank and hence central banking and debt management policies are intertwined.

In this paper it is not proposed to discuss the Indian monetary policy prior to the establishment of the Reserve Bank of India (R.B.I.). In the first place, there is not much that is instructive for the present day, the policies also being largely influenced and made having regard to the interests of the foreign power ruling the country. And, in the second place, in the space of an article, it is not obviously possible to cover a rather long period of monetary history. In the circumstances, this paper will only deal with the policies of the R.B.I., which, like COMMERCE *in its new version*, recently completed its silver jubilee. Although the R.B.I. is a very young institution in comparison with some of the established central banks like the Bank of England, it is a comparatively senior one among the world's central banks and, what is more important, the period has been sufficiently eventful, politically and economically, to make it profitable to review the working of the Bank's policy.

This period of 25 and odd years can be divided into two broad subperiods, namely, 1935-47 (pre-Independence) and 1948-60 (post-Independence). Each of these could be further sub-divided, the first into three sub-periods, namely, pre-war, war and post-war years, respectively; the latter period could be broadly divided into two periods, 1948-51 (the period of post-partition transition) and 1951-60 (the era of planned economic development). Broadly speaking, it is only the last mentioned sub-period (1951-60) that is of significance from the point of view of monetary policy. During this period also, barring the initial action in November 1951, monetary policy was again, by and large, inactive for a little over four years. It is only in the last four and odd years (more particularly the last nine months), coinciding with the commencement of the second Five-year Plan, that there has been very active pursuit of monetary policy, embracing the use of nearly all the important monetary instruments, namely, Bank rate, variable cash reserve ratios and selective credit regulation.

It is important to recognise, at the very outset, that, in underdeveloped countries like India, the role of monetary policy is not merely negative, that is, *regulating* the credit system, but has also an important positive aspect of *building up* an adequate credit system to cater to the requirements of a growing economy. When the pace of economic development has to be forced under a scheme of planned economic development, the growth of the institutional machinery for the provision of various types of credit for industry, trade and agriculture cannot be left solely to the initiative of the private sector. The central bank and the Government have to initiate much action in this behalf. While efforts in this direction began fairly early in the history of the R.B.I., it is only in the last 10 years or so that they have gathered momentum. In other words, the last 10 years have been important from the point of view of both the promotional and the regulatory aspects of central banking. This decade has also been eventful in the field of monetary policy in foreign countries too; after comparative disuse for nearly two decades, there was a revival of monetary policy in most of the developed countries of the world.

II

Scope for the Operation of Monetary Policy

It should be pointed out that monetary policy is not an end in itself. It is subservient to the requirements of the economy as a whole. Although not always are the objectives of monetary policy explicitly mentioned in the statutes, the promotion of economic growth with stability—stability of the domestic price level and stability of the foreign exchange—may be regarded as the fundamental objective of monetary policy, in India as well as elsewhere. It is recognised that, while, in the short run, the objective of rapid growth may not be quite consistent with the objective of stability, the two, in general, are not only not incompatible but should essentially go together. Monetary policy is of little significance in an economy that is stagnant, which was more or less the case in India in the pre-war and the early post-war years. The evolution of monetary policy is, therefore, conditioned to a large extent by the pace and pattern of economic growth, the origin and channels of stimulants for growth and the role of Government, both in stimulating and undertaking investment as well as in regulating it in the private sector. In an economy wherein the major share of investment activity is undertaken by Government itself or where the volume and direction of investment in the private sector are subject to fairly comprehensive regulation by Government, which is the situation that obtains in India in the last 9-10 years, the importance of monetary policy is circumscribed. Monetary policy is essentially a regulatory instrument of a free market economy, working mainly through the price system. Its merits and drawbacks are essentially those of the price system itself.

This is not to say that monetary policy can accomplish a great deal, even in the developed countries. The limitations of monetary policy in ensuring economic growth and stability have been widely recognised, particularly in the matter of stimulating economic growth. By and large, fiscal policies are of much greater significance than monetary policy. It is customary to refer to the need for proper co-ordination between monetary and fiscal policies in achieving the objective of growth with stability. It should, however, be noted that, while the *efficacy* of monetary policy is extremely limited in the face of serious imbalance in the fiscal operations, paradoxical as it may seem, the *scope* for the application of monetary instruments is widened in an environment of fiscal imbalance, so that whatever possible may be done to mitigate the harmful effects of such policy.

In considering the scope for monetary policy in India, it may not be out of place to point out the special limitations for the effective application of monetary policy in underdeveloped countries in general. These are the general lack of organised and integrated money and capital markets, low levels of *per capita* income and investment activity, especially by the private sector, the presence of a significant sector of the economy outside the orbit of monetary transactions, the much greater importance of currency than deposit money and the dependence on the export of a few primary commodities for the bulk of foreign exchange receipts as well as for a major part of national income. India, however, presents an example of a semi-developed country which, in the last decade or so, has been recording a fairly rapid economic growth. It has a reasonably well-developed banking system with a not too narrow network of financial institutions to mobilise and channelise savings. The organised sector of the money market is steadily expanding, with the rapid development of commercial and co-operative banking. Government and the R.B.I. have contributed much to this process and commercial banks have also shown much initiative in this behalf. The volume of financing of industry and trade done by the organised money market is substantial. The organised industry is almost wholly dependent on bank credit. The overall share of the organised banking system in the financing of trade should not be less than 50 per cent. now, and this share is steadily rising. In this connection, it is interesting to note that the R.B.I. itself, in its latest annual report, came out with a positive statement on the role of monetary policy. It stated: "Monetary policy, despite its recognised limitations generally and especially in a semi-developed economy like ours with a substantial currency component of money supply, has a positive role to play in facilitating the attainment of growth with stability. The techniques of credit regulation, however, have to be modified to suit the changing outlook of the economic scene, bearing in mind the needs of a developing economy."

Before we proceed to a discussion of the evolution of monetary policy in India, it may be useful to make some further general observations on the concept of efficacy of monetary policy, for there seems to be quite a lot of misunderstanding on the subject. It is extremely difficult to talk in vacuum about the efficacy of monetary policy even as, to borrow an analogy from the world of medicine, it is pointless to talk about the efficacy of a particular drug. The effectiveness of a drug depends upon the intensity of the particular malady, the stage when it is diagnosed, the *dosage* that is prescribed and other complicating factors of the patient's system. Also, while the drug may cure the disease effectively, it may produce some undesirable side effects. The same drug may work sometimes but not at other times. This is true of monetary policy. A particular situation, for instance, can be corrected by a 2 per cent. rise in Bank rate but not by a ½ per cent. or 1 per cent. In this connection, it should also be pointed out that the efficacy of monetary policy is impaired by an unwillingness to face up to the consequences of a particular action and take a co-ordinated view of monetary policy. A rise in the Bank rate, for example, should produce a decline in Government security prices; in fact, that is a very important *modus operandi* of the functioning of the Bank rate. To support Government security prices indiscriminately in this context is to neutralise one's own action.

In considering the evolution of monetary policy in India, we may adopt two alternative courses. One is to take each instrument of monetary policy and discuss the extent and manner in which it has been employed. The other is to go period by period and discuss how the various instruments have been employed to deal with the prevailing economic situation. For a satisfactory consideration of the matter, it may be useful to adopt, to some extent, both methods of analysis. Broadly speaking, as already mentioned, it is only the last four and odd years, that is, the period of the second Plan, that are of considerable significance, as it is only during this period that there has been more or less continuous and varied resort to credit regulation measures. Incidentally, the short experience of monetary policy in India has been generally characterised by progressive restraint rather than by alternative easing and tightening, as is the case in many developed countries.

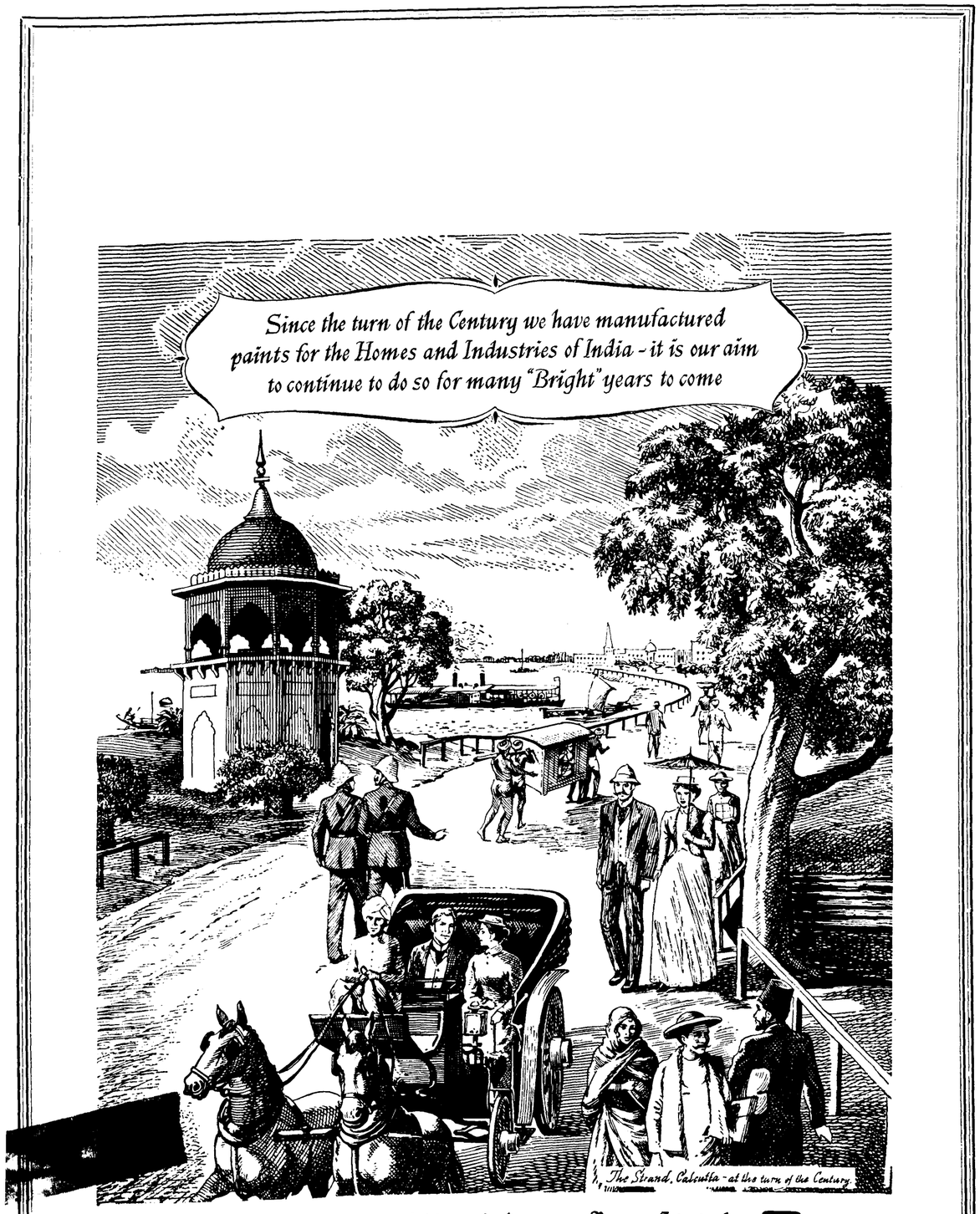
It may be stated at the outset that, in the matter of availability of powers, the R.B.I. is rather well placed at present. It has all the instruments of general or quantitative regulation—Bank rate, open market operations and variable reserve ratios (the last mentioned power becoming available to the Bank in October 1956). The Bank has also extensive powers of selective credit control under the Banking Companies Act, 1949, which has also conferred on the Bank wide powers of regulation and supervision of individual banks. In other words, for the pursuit of both monetary and banking policies, the Bank has sufficient armoury. Over the years, the range of assets the Bank could acquire has also gradually been widened, the inauguration of the bill market scheme in January 1952 being an important landmark in this respect.

III

Economic and Financial Trends

As mentioned earlier, to understand the rationale of the monetary policy measures, a brief account of economic trends is essential. Since the monetary policy became active only in the 1950s, it would be sufficient if the economic trends during the last 12 years or so are briefly indicated. The years 1948-49 and 1949-50 were in a sense abnormal. In 1948-49, the country was still recovering from the effects of parti

Note.—The views expressed in this paper are entirely those of the author and should not in any way be associated with his official position.



tion. On the monetary front, the year was characterised by substantial contraction in money supply and bank deposits, as a result mainly of substantial balance of payments deficit. The wholesale prices index recorded a substantial rise, but this was largely on account of the removal of controls and represented, to that extent, a *de jure* recognition of a *de facto* state of affairs. 1949-50 in the middle of which the rupee was devalued, was also characterised by monetary contraction although commodity prices recorded a further, though small, rise. In other words, during this period, there was no occasion for any monetary restraint; in fact, the Reserve Bank made some purchases of Government securities, which was in order.

The year 1950-51 was characterised by substantial monetary expansion and rise in prices, mainly on account of the boom engendered by the Korean war. In the circumstances, a policy of credit restraint appeared to have been called for but no action was taken in this direction; in fact, the R.B.I. made substantial purchases of Government securities during this year. In 1951-52, however, there was monetary contraction and towards the end of the year there was a sharp fall in commodity prices, with the end of the Korean boom. In fact, even earlier there had been a gradual downtrend in commodity prices. It was during this year that measures of monetary restraint were announced (in November 1951), with a view to forestalling any abnormal rise in bank credit of the magnitude witnessed in 1950-51 and reinforcing the decline in prices that had set in. The following two years, 1952-53 and 1953-54, were characterised by substantial monetary and price stability. In 1954-55, while there was some monetary expansion, the price index recorded a substantial fall on account of the record agricultural output. Thus far, the tempo of investment in the public and private sectors had not yet gathered any worthwhile momentum.

But, from the last year of the first Plan, that is, the year 1955-56, the situation changed. The rate of investment in the public and private sectors recorded a marked rise. The magnitude of deficit financing in the public sector began to rise sharply and in the private sector also resort to the banking system for accommodation rose markedly. Commodity prices also started looking up significantly. In the years 1955-56 and 1956-57 (the first year of the second Plan), the rate of expansion of money supply and bank credit was sharp, particularly in 1955-56, though, in 1956-57, the substantial deficit in balance of payments slowed down the pace of monetary expansion. In the result, some credit restraint measures were called for and, as described later, were adopted.

During the following two years, 1957-58 and 1958-59, there was some slowing down of tempo of investment mainly because of the foreign exchange difficulty. The rate of growth of industrial output also came down sharply. In the result, the pace of expansion of money supply and bank credit slowed down. The same was true of the trend of commodity prices, too, in 1957-58. During these years, therefore, apart from selective credit control in respect of some individual commodities, no major change in credit policy appeared to have been called for. Besides, in 1958-59, there was a marked decline in budgetary deficit. In 1959-60, however, the situation again changed radically; there was substantial recovery of industrial output and there was some evidence of increase in investment in the economy, particularly in the public sector. Once again, the rate of expansion of money supply and bank credit went up significantly. Also, as a result of large accumulation of Government securities in the preceding two years, the liquidity of the banking system had risen substantially. The rise in commodity prices was also marked, the rise being significant, unlike in the previous years, in the groups other than food, namely, industrial raw materials and manufactures. Another development of considerable concern was the continuous decline in foreign exchange reserves, since about the beginning of 1960, from a level that was by no means comfortable. In these circumstances, general credit restraint action was clearly called for and was in fact taken, though towards the fag end of the year. This action was further reinforced in the current financial year, as these economic and financial trends were intensified. Thus, on the top of a marked rise in 1955-56, the rise in the first four years of the second Plan of the various economic series was as follows, percentage-wise—money supply 24, scheduled bank deposits 50, bank credit 48, general index of wholesale prices 21 and working class consumer price index 22; the rise in national income was 12 per cent.

Thus, broadly speaking, it could be said that monetary action has been taken as and when the economic circumstances warranted it. There could, of course, be some difference of opinion as to whether the timing of the action was always appropriate. The answer to this could be no better than that given by the Reserve Bank's Governor, Shri Iengar, in a recent speech at Madras. He said:

"It would be idle for anyone to make the claim—and I do not make it—that the measures taken by the Reserve Bank have at every stage been exactly timed or just appropriate. . . . The task is more difficult in India. But action has to be taken on the best assessment possible and I believe that the tenor of Reserve Bank policy has been basically right."

Before we proceed to a review of the operation of the various instruments of monetary control, one general observation requires to be made and, that is, the Reserve Bank's responsibility, as mentioned at the very outset, is not merely one of credit *restriction*. In a growing economy, there has to be continuous expansion of money supply and bank credit and the central bank has the duty to see that the legitimate credit requirements are met. The Bank's responsibility in the circumstances is mainly to moderate the expansion of credit and money supply, in such a way as to ensure the legitimate requirements of industry and trade and curb the use of credit for unproductive and speculative purposes. That is why the Bank has rightly called its credit policy in recent years as one of *controlled expansion*. There are, of course, many practical difficulties in arresting the flow of credit to what are called speculative activities, not to mention the difficulty of segregating a purely speculative activity from non-speculative activity.

IV

Bank Rate

In India, Bank rate, as statutorily defined in Section 49 of the Reserve Bank of India Act, is a *discount* rate, namely, the rate "at which it (the Bank) is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchases under the Act," but, since there is hardly any commercial bill market, its significance lies primarily as the base for the Bank's rates on its *advances*. There are no restrictions regarding the rate/rates at which the Bank may make advances. Even in the developed countries, there has been a great deal of controversy about the efficacy of the Bank rate; even expert bodies like the Radcliffe Committee have not spoken unequivocally about it. The fact, however, stands that, in the last 10 years, Bank rate changes have been quite numerous. In India, the Bank rate weapon is of comparative unimportance as a regulator of international movement of short-term funds, though, so far as movement of funds from the U.K. is concerned, it is, perhaps, of some significance. In Indian conditions, therefore, the Bank rate weapon has to be considered mainly for its effects on the domestic economy, and for this reason, perhaps, frequent changes are not called for.

In this context, the use of the Bank rate instrument is primarily for three purposes, namely, to restrain fixed investment, to discourage excessive building up of inventories and to serve as a general signal to the banking system, in particular, and to the economy, in general, about tightening or relaxation of credit. The effectiveness of Bank rate depends to a large extent on its efficacy as a pace-setter for other market rates of interest, both short-term and long-term. In India, until about 10 years ago, the volume of investment activity was comparatively of small dimensions. On the other hand, as a result of substantial budgetary deficits, the volume of money with the public, as well as the reserves for the banking system were relatively abundant. In the result, the Bank rate, being generally much higher than the market rates of interest, had little significance. In the last 10 years, things have changed much. The volume of investment has been stepped up substantially under the ægis of the Five-year Plans. It is true that a substantial and growing share of investment activity is being undertaken by Government directly and a good portion of investment in the organised private sector is being regulated by Government under such statutes like the Industrial (Regulation and Development) Act. Even so, variations in the rate of interest are bound to produce some effect on the volume and pattern of investment, not only in the private sector but to some extent in the public sector, too, as a result of a more realistic reckoning of the cost of capital. The effect of changes in Bank rate on the building up of inventories is likely to be more pronounced, though for this purpose changes in Bank rate may have to be rather sharp. It has also been recognised that, in Indian conditions, the Bank rate weapon has great potentiality as a shock treatment.

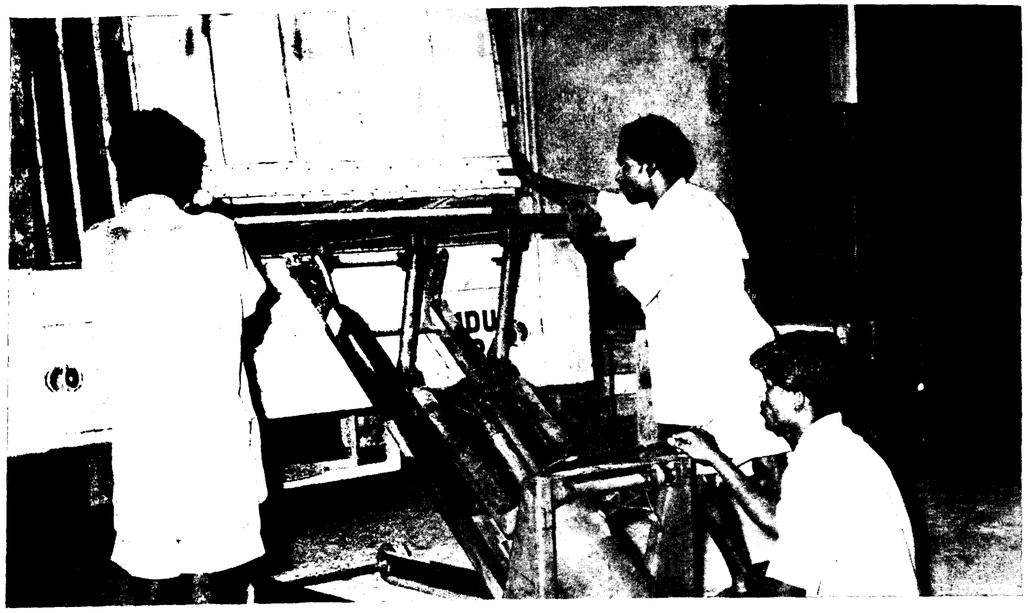
In recent years, the dependence of the banking system—commercial and co-operative—on the R.B.I. for accommodation has increased markedly. Whereas, until about 1950, the Reserve Bank's total outstanding lending to the banking sector was very small, being no more than of the order of Rs. 10 crores, today it is of the order of Rs. 125-150 crores. Further, in so far as the so-called unorganised sector of the money market is itself depending upon the organised sector on a growing scale, the transmission of the effects of changes in Bank rate are fairly effective, especially when the direction is upward. It has been observed from 1951 onwards that the money market rates, including the lending rates of commercial banks, get adjusted more or less automatically to variations in Bank rate.

As in many other countries, in India also, the authorities have been naturally exercised by the possible repercussions of changes in Bank rate on the price of Government bonds; in Indian conditions, the effects on Gilt-edged prices are much more pervasive, since Bank rate change is considered to signify a fundamental and long-term change. However, so long as the maturity pattern of Government debt is harmonious, with non-terminable loans being relatively of small proportions, and the banking system's holdings are primarily short and medium dated—these conditions have generally been fulfilled in India, especially in the post-war years—variations in Bank rate should not on the whole produce any serious repercussions. It should also be mentioned that the rate of interest that is offered on Government securities contains an element of insurance premium for fluctuations in Government bond prices; otherwise, the rate of interest on Government bonds should have been lower.

Yet another important aspect of Bank rate is that, while it can be used as an active instrument trying to influence the other rates, it is even more important to regard it as a *de jure* recognition of a *de facto* change in the pattern of money rates in the economy as a whole. In the United States, for example, the discount rate is varied more or less automatically following changes in market rates as typified by the Treasury Bill rate. In Canada, they have gone a step further and fixed the Bank rate at ¼ per cent. above the Treasury Bill rate. If these were not done, then there would be a tendency either for larger borrowing from the central bank or sale of securities to the central bank, leading to monetisation of debt.

One last general consideration in respect of Bank rate that requires to be mentioned, especially in the context of the views that are expressed from time to time, is that the rate of interest produces its effect not only as a *cost* factor but also a *capitalisation* factor. If for instance, the rate of interest goes up, all capital values decline and, consequently, the sale of assets will produce a smaller cash and the borrowing power of capital assets decline. It is customary to say that, except in the case of highly capital intensive projects, the cost effects of changes in the rate of interest are only 'marginal.' This is, perhaps, true broadly, but it should be emphasised that even marginal effects are not insignificant, especially since many situations are the result of only marginal imbalance between supply and demand.

In the 25 and odd years of the Bank's history, Bank rate proper has been altered on only three occasions. In the first year of the Bank's existence, namely, in November 1935, the Bank rate was reduced from 3½ to 3 per cent. There was no further change till November 1951, though, in the intervening years, sometimes the Government and sometimes the Bank wanted a reduction; thus, it is stated by a former Governor (Shri Deshmukh) that, in 1936, the Bank's Governor wanted a reduction but the Government strongly opposed it, surprisingly on the ground that there was glut of funds in the money market. In the beginning of 1946, it was the Government which suggested a reduction in Bank rate, but this did not find favour with the Bank, which did a good job of warning Government against the dangers of excessive cheapening of money, though Government got away with its plan of converting the 3½ per cent. non-terminable loan to 3 per cent. in May 1946, this however being the end of the cheap money era. In mid-November 1951, the Bank rate was put up to 3½ per cent. This was a kind of delayed action. A rise some 10-12 months earlier, when the Korean boom was rampant, would, perhaps, have been more appropriate. But, as a matter of fact, during that period the Bank acted in the reverse direction by *buying* a



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considerable amount of Government securities. Although belated, the action cannot be considered inappropriate; the retreat from cheap money from the autumn of 1946 had to be given a formal stamp through raising of Bank rate. It was also necessary to put a check on the monetisation of debt.

Again, in mid-May 1957, the Bank rate was raised to 4 per cent., at which level it has technically remained unchanged. It has been mentioned already that, in India, the Bank rate's significance lies mainly as a rate on advances. Leaving aside the rate of lending charged to the co-operative sector, which will be discussed presently, the lending rates to scheduled banks have undergone some changes. There was no divergence between Bank rate and the advances rate till January 1952, when, following the raising of Bank rate to 3½ per cent. in November 1951, the Bill market scheme was introduced and the lending rate under the scheme was maintained at 3 per cent.; this was an important element in the promotional aspect of central banking. Advances against Government and other approved securities, however, were made at the new Bank rate, i.e., 3½ per cent. In March 1956, the bill lending rate was raised to 3¾ per cent. and, in November 1956, further to 3¾ per cent., making it again equivalent to Bank rate, which arrangement has since continued. But, for the scheduled banks, the effective borrowing rate against usance bills went up to 4 per cent. from 1st February 1957, as a result of the raising, by Government, of stamp duty on usance bills (from practically nothing to one half of one per cent.), which the Finance Minister called "a fiscal measure with a monetary intent," the announcement to this effect having been made earlier in November 1956. Simultaneously, "with a view to avoiding discrimination against borrowing under the bill market scheme," the R.B.I. also raised its lending rate on advances against Government securities to 4 per cent. During the next 3½ months, Bank rate remained unchanged at 3½ per cent. but, as already mentioned, it was formally raised to 4 per cent. shortly afterwards, that is, from 16th May 1957. From this date, the Government lowered the stamp duty on usance bills to one-fifth of one per cent., with the result that the effective borrowing rate under the bill market scheme rose slightly to 4-1/5 per cent., that is, 4 per cent. payable to the R.B.I. *plus* 1/5 of one per cent. payable to Government by way of stamp duty. In other words, bill borrowing, which till November 1956 had enjoyed a preferential rate, became costlier than other types of borrowing. This was presumably because of the altered liquidity position of banks which also experienced rapid growth in deposits. Thus, the raising of Bank rate, by ½ per cent., was effected in a very smooth way "designed primarily to minimise disturbance to the money and gilt-edged markets," as the Reserve Bank's annual report stated. Even in 1951, the Bank rate rise had been softened by the lending against bills at the old Bank rate itself.

The pattern of the Bank's lending rates remained unchanged till 1st October 1960. As from that date, the R.B.I. introduced a system of penalty rates. The main feature of this scheme is that each scheduled bank is assigned a quota equal to half the average amount of the statutory reserves required to be maintained by it with the R.B.I., under Section 42(1) of the Reserve Bank of India Act, during each week of the previous quarter. (In other words, the additional reserves impounded by the R.B.I. over and above the requirement of 2 per cent. of time liabilities and 5 per cent. of demand liabilities are not included for the quota calculation). For borrowing a sum not exceeding the quota the rate is Bank rate. Any borrowing over this limit and upto 200 per cent. of the quota bears a penal rate of 1 per cent. over the Bank rate; for amounts above 200 per cent. of the quota, the penal rate is 2 per cent. above the Bank rate. This step was taken by the R.B.I. in the wake of fairly stringent action through the variable reserves instrument in March and May 1960 and also extension of selective credit controls to shares; these are discussed later.

Although the impounding of additional reserves reduced the liquidity of the banking system, to some extent, this was neutralised by the scheduled banks' much larger borrowing from the R.B.I., as a result of which the contraction of bank credit in the slack season was much less than what was deemed feasible and desirable. In the circumstances, the Bank had to take some steps to discourage borrowing by banks and nothing was more natural than the raising of cost of central bank credit. Even the stoppage of buying securities would have led to the same situation. Rather than put up the Bank rate straightway, which course appears to have been widely anticipated in financial circles for some months past, the Bank decided to introduce a system of slab rates. Some sections of the financial community and the Press appeared to have felt that a simple raising of Bank rate would have been more convenient and would have also been appreciated better. As against this, it should be borne in mind that, in Indian conditions, where Bank rate changes are regarded as of fundamental significance, as the changes are few and far between, the change in the interest rate pattern had to be brought about as smoothly as possible, particularly since the borrowing programme of Government had just been concluded. An increase in Bank rate to, say, 5 per cent. would perhaps have disrupted the money and gilt-edged markets. Besides, upto a point, it is, perhaps, the obligation of the R.B.I. to provide accommodation to the banking system and if the banks would keep their resort to the R.B.I. to modest limits, there is no need why there should be a general and sharp increase in the Bank's lending rates. The slab system of lending rates is a flexible arrangement, giving the Bank considerable freedom to have fairly high rates and vary the slabs and the penalty rates, and this system is without prejudice to the Bank's discretion to take action on Bank rate, in view of the fact that the Bank rate is the basis for many other rates in the economy.

Simultaneously with the introduction of the system of slab rates, the R.B.I. issued a directive to scheduled banks to put up their average lending rates (as worked out for the year ended 30th June, 1960) by *at least* one half of one per cent. per annum, and to maintain their minimum lending rate at 5 per cent. on all loans and advances (with certain minor exceptions, such as inter-bank advances). Although the raising of the Reserve Bank's lending rates would have led to a rise in the scheduled banks' own lending rates, the Bank wanted to make sure that this would happen. This is the first occasion when the Bank has attempted to regulate directly lending rates.* In this connection, it is learnt that the State Bank of India, which has continued to perform some quasi-central banking function, decided to put up its lending rate to other banks also from 4-4¼ per cent. to 6 per cent. in the principal cities like Bombay and to 5 per cent. in other places, but with a ceiling on the State Bank's lending on the basis of some previous year's figures. This action has further enhanced the effectiveness of the Reserve Bank's action.

Before concluding the section of Bank rate, a reference may be made to the Reserve Bank's short and medium-term lending to the State co-operative banks, which, for about 15 years now, is being made at a concessional rate of interest. Originally, the rate was 1 per cent. below Bank rate and the concession was later raised to 1½ per cent. and again to 2 per cent., the latter continuing till now, except that, recently, the concession on medium-term advances was lowered to 1½ per cent. below Bank rate. In point of magnitude, the R.B.I.'s lending to the co-operative banks, on the average, is much larger than its lending to scheduled banks and this is steadily rising. Thus, the average of the outstanding lending in the financial year 1959-60 was Rs. 68 crores to co-operative banks as compared with Rs. 19 crores to the scheduled banks. The rationale of charging concessional rates to the State co-operative banks is that the availability of credit to the rural sector is unsatisfactory and the rates of interest paid by the ultimate borrowers are inordinately high. The R.B.I.'s lending at concessional rate had undoubtedly helped to bring down the pattern of interest rates in the rural areas, though not to the extent desired by the R.B.I. It is hardly necessary to say that, while it is desirable to take special steps to make credit available to a particular sector freely, in so far as the credit pool is a common one ultimately with intersectoral flows, the overall flow of the Reserve Bank credit should be kept under restraint.

V

Open Market Operations

Open market operations constitute a very flexible general instrument of credit control, and, in fact, in some countries like the U.S.A., they have recently come to be regarded as the primary instrument of credit control. In India, the environment for open market operations has been generally favourable. The Government securities market is fairly well developed, although the holding of Government bonds is predominantly by institutional investors, commercial banks being the most important. Institutional investors like insurance companies, provident funds and banks are statutorily required to hold a minimum percentage of their assets in the form of Government securities. There is more or less continuous net borrowing by Government, which was particularly so during the war years as well as in the period beginning with the five-year plans. Government bonds today constitute about 25 per cent. of national income. The marketing organisation is fairly satisfactory, with a large number of brokers in the principal cities. In the earlier years, there were some restrictions on the maturity pattern of the securities which the R.B.I. could hold, but later all the limitations were removed. In the result, the Bank is free to deal in Government bonds of any maturity and in fact it does. Unlike in the U.K. and the U.S.A., which have a sizable Treasury Bill market, open market operations in India are conducted in Government bonds, predominantly those issued by the Central Government, as the Treasury Bill market is unimportant. The Bank has had an adequate and diversified portfolio for the conduct of open market operations.

In view of the fixed exchange rates and the obligation of the R.B.I. to buy and sell foreign exchange and the obligation on the part of the public and the banks to sell foreign exchange to the R.B.I., this part of open market operations is more or less passive.

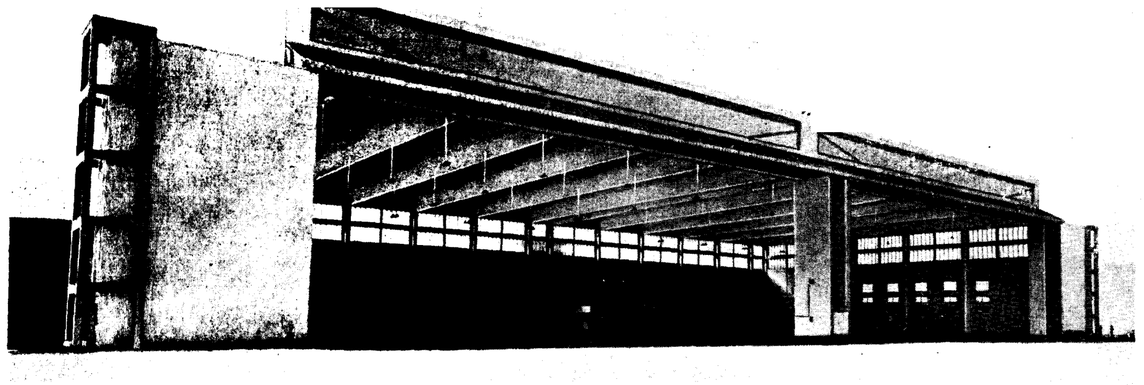
As regards the objectives of open market operations, it would appear that, to a large extent, these have been used to meet the seasonal variations in the reserves of the banking system, the R.B.I. buying securities during the busy season and selling securities during the slack season. The seasonal aspect of open market operations is itself not insignificant; in fact, mitigation of seasonal stringency and sharp movements of interest rates was an important object of the establishment of the R.B.I. Also, as in most other countries, the Bank's open market operations have had the object of facilitating Government borrowing and of maintaining the stability of Government bond prices, though the Bank has not been aggressive in this behalf; "it does not swim against the current." They have not been employed much as an instrument of monetary policy, i.e., for influencing the availability and cost of credit.

Prior to 1951, when cheap money policy was generally in vogue in India as well as elsewhere, the Bank's above objectives necessarily led to monetisation of debt. It is for this reason that, in November 1951, simultaneously with the raising of Bank rate from 3 to 3½ per cent., the Bank made an important change in its open market operations policy. The Bank announced that, save in exceptional circumstances, the Reserve Bank would not *buy* securities for meeting the seasonal requirements of banks but that it would make *advances* to banks against eligible assets. This policy continued more or less for a period of five years (up to October 1956), during which the Bank made net *sales* of securities in contrast to substantial *purchases* in the preceding five years or so. In this connection, it should be pointed out that the inauguration of the Bill market scheme provided substantial relief to the banks. Moreover, during the years following, the tempo of the economy was rather slack and, therefore, there was no great marked demand for funds. In October 1956, however, the Bank again modified its open market operations policy and began to support Government securities, in view of the acute stringency in the money market and in the wake of a large aggregate issue of bonds by the State Governments a few months earlier. This policy of support continued for less than a year; thereafter, the monetary situation eased substantially and the Bank was again in a position to sell securities.

In the last 8—10 years, the R.B.I. has also engaged on a substantial scale in what are known as "switch operations," with a view to meeting the maturity requirements of investors and generally ensuring a harmonious maturity and yield pattern. As a result of these, in the post-war years, the commercial banks were enabled to shorten the maturity of their holdings, which, under the influence of war-time cheap money, had been unduly lengthened.

In a recent issue of the Reserve Bank of India *Bulletin*, detailed statistics have been given of the Bank's open market operations since the year 1944-45. Prior to

*The Bank also put a ceiling of 2 per cent. in respect of the interest paid by banks on deposits maturing in 21 days or having a notice period of not more than 21 days.



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that year, open market operations on the Bank's account were not significant. During the war years, the Bank, of course, sold large parcels of securities, but these were mostly on Government's Cash Balance Investment Account. In the post-partition period, the largest net purchase was made in the year 1948-49, to the extent of Rs. 91 crores (gross purchases Rs. 122 crores less sales Rs. 30 crores). On the other hand, the largest net sale of about Rs. 90 crores was made in 1958-59. A good part of the total net sale of Rs. 215 crores in the three years 1957-60 was largely accounted for by a fortuitous factor, namely, the accrual of P.L. 480 deposits with the State Bank of India and their investment in Government securities.

As regards the future, the extent to which open market operations can be used as an instrument of monetary policy depends on the general question of the extent to which there would be resort to monetary policy itself. In other words, there can be no such thing as an independent pursuit of open market operations. Latterly, there have been indications of the pursuit of an active monetary policy. This has been evidenced by the use of the instrument of the variable reserve ratios as well as that of varying the Bank's lending rates. Moreover, with the diversification of the economy, the seasonal character of the money market is tending to become less marked, so that there would be greater scope for open market operations to be employed as a flexible monetary instrument, though, in view of the paramount need for raising resources for the Plans, the emphasis would have to be in the direction of sales.

VI

Variable Cash Reserve Ratios

The third important instrument of quantitative credit control is the variable cash reserves (maintained with the Reserve Bank) of the scheduled banks. As mentioned earlier, the R.B.I. acquired this power (the Bank can now vary the minimum cash reserves maintained with it from 2 to 8 per cent. in respect of time liabilities and 5 to 20 per cent. in the case of demand liabilities) only in October 1956 and the Bank actually used it for the first time in March 1960. Till recently, there was no need to resort to this instrument, although bank deposits were rising fast from 1957 onwards. This was because the bulk of the increase in deposits was utilised by the banks to acquire Government securities. However, the situation changed from 1958-59 onwards. In the busy season of that year, there was a sharp increase in bank credit and, in the following slack season, the contraction was much smaller. There were, again, indications of an equally sharp, if not sharper, rise in bank credit in the 1959-60 busy season. The rise in commodity prices was also sharp. Further, the substantial increase in Government securities portfolio of banks had contributed to a marked increase in the liquidity of the banking system and this would have hindered the pursuit of credit restraint policy. In the result, it was considered desirable by the Reserve Bank to apply a general instrument of credit control and for this purpose resort was made to the device of variable reserve ratios.

With a view to operating this instrument in a flexible manner, the Bank applied the ratio not on the overall liabilities of banks but on the *increase* in liabilities taking place after 11th March 1960. The additional reserve requirement (i.e., over and above the basic minimum of 2 per cent of time liabilities and 5 per cent of demand liabilities) was fixed at 25 per cent of the increase in total liabilities (disregarding the difference between time and demand liabilities for this purpose) and this ratio was enhanced to 50 per cent with effect from 6th May in respect of increases in deposits after that date. It may be argued that 50 per cent is rather a high figure and that it would affect the incentive of banks to mobilise deposits. It should, however, be noted that the enhancement was made at the beginning of the usual slack season and the object of the authorities was evidently to ensure a satisfactory reduction in credit in the slack season. From the subsequent relaxation which the Bank announced on 11th November 1960, it would appear that the Bank thought of this sharp increase as a purely temporary measure for the slack season. The Bank also agreed to pay interest on these additional reserves equal to the average rate of interest on total deposits of each bank (subject to a ceiling of Bank rate) and later, with effect from July, the Bank offered an additional ½ per cent. to cover the cost of administration involved in the mobilisation of deposits.

This step no doubt reduced the liquidity of the banking system. It is interesting to note that, in view of the fact that a number of banks recorded decline in liabilities after the system of variable reserve ratios was introduced (these declines obviously getting no relief in reserves on this score), the additional reserves impounded by the Bank *from the scheduled banks as a whole* constituted a much larger percentage than 50 of the increase in the liabilities over 11th March, and, from this angle, the measure should be regarded as highly effective. On the other hand, the measure had little impact on bank credit, the banks largely neutralising the effect of this instrument by much larger borrowing from the R.B.I. (which was rendered easy by the fact that the Bank's lending rate remained unchanged) and by much smaller purchases of Government securities than in the past. It is mainly to deal with this situation that the Bank announced on 21st September, as already mentioned, the new system of penalty lending rates to scheduled banks. This system, which came into effect on 1st October, was regarded as likely to fulfil the Bank's objective satisfactorily. In view of this and also in view of the fact that the legitimate requirements of the economy during the busy season may be met by the banking system, the Bank announced on 11th November, the suspension, for the time being, of further impounding in respect of increases in liabilities over the level as of 11th November. In respect of the reserves that had already been immobilised, nearly half was released. In this connection, it may be pointed out that, under the Act, the Bank cannot specifically return any portion of the impounded reserves. For this purpose, the directive has had to so worded as to apply retrospectively a reduced ratio of impounding (namely, 25 per cent) on the increase in liabilities between the 11th November and the 11th March levels, with the proviso that the additional requirement would not apply to any increase above the level of 11th November. It is this proviso which gave the relief to banks from further impounding. It could be asked whether it would not have been more appropriate to have lowered the additional reserve requirement, in the first instance, to something like 25 per cent. Presumably, the Bank considered it best to suspend it altogether for the time being, at the beginning of the busy season, rather than create uncertainty of a possible discontinuance later in the busy season.

Thus, the first experiment with regard to the use of the variable reserve instrument has been quite brief but it has also been useful. The Bank has no doubt been made aware of many practical difficulties in the matter of working this instrument. The experiment has also pin-pointed the well-known principle that the various instruments of monetary policy have to be co-ordinated and employed in concert, if they are to be effective. Further, the use of the variable cash reserve requirement would have to be co-ordinated with the minimum requirement regarding liquidity ratio of banks, so that the impounding of cash may not be offset by a large liquidation of Government securities, though there are limits to such liquidation and a price has to be paid in the form of capital loss.

VII

Selective Credit Control

Prior to the passage of the Banking Companies Act in 1949, the R.B.I. had no powers of selective credit control. In Western countries, selective credit regulation has been applied mostly to credit extended against durable consumer goods and in the U.S.A. stocks and shares, since in those economies these are the sensitive spots. In India, however, the output and consumption of durable consumer goods, though they are rising rapidly, are still relatively of smaller dimensions. The strategic commodities in Indian conditions are mostly articles of mass consumption, namely, foodgrains, cloth, sugar and oilseeds. The selective credit regulation has, therefore, been operative in respect of advances against these commodities, though the regulation in respect of cloth advances was in force only for a very short period. In March 1960, the control was also extended to advances against ordinary shares (above an amount of Rs. 5,000), as an unhealthy boom had developed for sometime past.

Beginning with advances against rice and paddy in May 1956, the selective credit regulation was gradually extended to the other commodities mentioned above and the pattern of control has also undergone a number of changes, in the light of the experience gained and the changes in the situation concerning the particular commodity. In the beginning, the regulation related mainly to the fixation of minimum margins, but, later, restrictions were also laid on the level of outstanding advances of each bank against the commodities subject to regulation, the limits being fixed with reference to the actual level of advances in the preceding year or years. Further, in view of the fact that, in this vast country, there are considerable regional disparities between supply and demand, separate ceilings to credit extension have had to be fixed, in the case of foodgrains, for surplus areas, with a view to facilitating a satisfactory flow of supplies. The ceilings to credit extension were suitably changed in the light of production trends. Further, special provision was made to meet the requirements of new branches of banks. The selective credit regulation has been applied mainly in respect of advances to trade. Advances to the factories have been exempt. Also, the credit for the movement of goods has been exempt from the scope of regulation. Likewise, in the case of an article like oilseeds, suitable exemptions have also been given to exporters. At present, advances against foodgrains and groundnuts are subject to minimum margin requirements of 40 and 45 per cent, respectively, and also to ceilings on total advances against these commodities. In the case of other oilseeds, sugar and ordinary shares, the regulation prescribes only minimum margin of 40 per cent, 45 per cent and 50 per cent, respectively. The simultaneous requirement of a high minimum margin and ceilings on advances of each bank should not ordinarily be necessary but the Bank's experience must have indicated the need for this.*

As regards appraisal of the working of selective credit control, it is important to note that the R.B.I. itself has been quite modest about the matter, as is indicated by the following statement in the Bank's annual report for the year 1958-59:

"Selective controls are not designed to correct the general inflationary pressures within the economy nor is their success to be judged precisely by the extent to which the prices of the relevant commodities have fallen; prices are dependent on various factors bearing on the demand and supply position of the commodities. The controls, by arresting an undue expansion of credit in the busy season and accelerating its reduction in the slack season, may be expected to exercise, only a limited, perhaps, a marginal effect, on prices, more particularly when banks have large liquid resources."

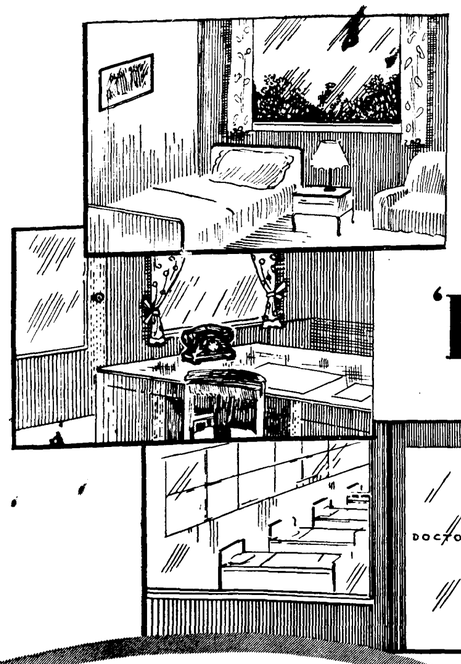
In foreign countries also, the general experience has been that selective credit controls are effective only when they are operated in the framework of overall credit restrictions. In India, so far as foodgrains go, the extent of financing ordinarily done by the banking system is very small, of the order of 5 per cent. or less. On the other hand, in the case of cash crops like oilseeds and a commodity like sugar, bank finance accounts for a substantial part of total financing and restrictions on bank lending should produce significant results. In Indian conditions, where the fluctuations in the output of primary commodities are considerable, leading to substantial variations in prices, selective credit controls can help mitigate the rise in prices, though there are many difficulties in administering such a system in a flexible and equitable way. Ordinarily, there is a likelihood of selective credit controls being evaded by resort to clean (i.e., unsecured) advances, especially on account of the size of the country and the large number of branches in the case of a number of banks. However, on account of the existence of an elaborate system of inspection by the R.B.I., the chances of such evasion are reduced. Besides, not all borrowers can get clean advances from banks. All the same, to prevent evasion of its selective credit regulation, the Bank directed, in March 1960, that the ratio of clean advances to total advances in any month should not exceed the ratio in the corresponding period of 1959.

There is, of course, always the difficulty that any pattern of control, once imposed, may remain unduly long, but, from the manner in which the R.B.I. has endeavoured to work these controls, the chances of such undue prolongation of controls seem to be rather remote.† There would also appear to be a view that the efficacy of selective credit control is being affected by the lending of the co-operative sector, as the selective credit controls

(*Continued on page* 58)

*On 12th December 1960, the Reserve Bank announced the extension of the selective credit regulation to advances against raw jute (minimum margins) and jute goods (minimum margin as well as ceiling on advances).

†On 9th December 1960, the Reserve Bank announced the reduction of the minimum margin on sugar advances from 45 to 25 per cent.



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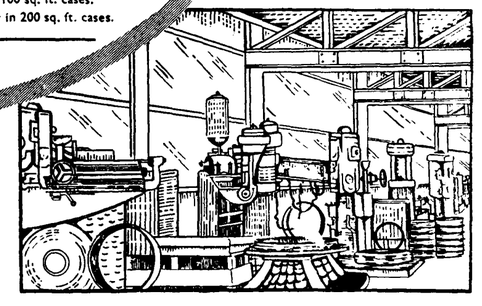
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ADMINISTRATORS IN INDEPENDENT INDIA

By C. C. DESAI, I.C.S. (Retd.)
FORMER COMMERCE SECRETARY TO THE GOVERNMENT OF INDIA

IN the matter of both foreign exchange and technical aid for the third and subsequent Five-year Plans till the "take-off" stage, India may continue to depend on the high-minded generosity and gentlemanliness of the more advanced countries —a dependence made, incidentally, much easier and mutually more agreeable by the consistently and conspicuously independent foreign policy followed by our astute Prime Minister, whose international stature and prestige seem to be growing as steadily and substantially as the country's internal prosperity from day to day. But foreign exchange and technical aid alone will not do. Administrators of first-class calibre and character are equally necessary—in much larger numbers than are available today. This important and immediate need is easily explained. In British days, India was more or less like a small grocer; administrative manpower was needed mainly for the maintenance of law and order. Development was hardly heard of, except in the sense of introducing the fundamentals or essentials of modern civilisation like posts and telegraphs, railways and an occasional irrigation system like the Sukkur barrage in the country-side.

Vast and Varied Business

Since independence, however, the grocer has enlarged his business extensively, indeed enormously; no longer content to manage a small grocery shop as his sole business, he has taken on a *zamindari* here, a dairy farm there, some fisheries in a third place, a fruit-farming and canning establishment elsewhere, and so on. Indeed, even his half-penny, twopenny grocery shop itself has become, almost overnight, a huge departmental store dealing in goods ranging from walking stick to lipstick, from chopstick to candlestick. Surely, in these changed conditions, he cannot continue to carry on as before with only a couple of trustworthy boys around; he must obviously have a much enlarged and more efficient team of workers —men who can take decisions on their own, for the old man can no longer be around all the time looking into everything himself and directing his lieutenants, where necessary. His business is now much too vast and varied for all that; his aim is no longer mere existence, but expansion and enrichment all round. He wants his family to prosper, not merely to proliferate.

That, broadly, is the position India is in today. Her commitments and responsibilities in the ever-widening sphere of development are multiplying like mosquitoes, and she needs a vast army of diligent, dutiful and dedicated administrators—a set of men who will keep themselves fully engaged in one way or another practically from sunrise to sunset, some of them even late into the night, grappling with the various administrative tasks allotted to them, and having an eye all the time for detail, without at the same time getting lost in the morass of petty details and losing grip on fundamentals. For such men, meals are only a brief break from their daylong relentless, unceasing Curzonian toil; and just as they are expected to forget political parties and leave them out of their calculations in the essential impartiality that underlies the execution of their duties and responsibilities, so are they expected, in the intense application to their pressing duties, to forgo and forget social parties, except perhaps once in a way to satisfy man's innate and natural gregarious urge, or more often to keep family peace.

Red Tape

The term "administrator" is very comprehensive; it may mean anyone high or low in the vast and varied hierarchy of public servants, from the Cabinet Secretary, the right hand of the Prime Minister, down to the humble *tehsildar* in some remote corner of the vast subcontinent engaged in the collection of revenue. Now, the one thing common to all these administrators, big and small, from one end of the country to the other, is the daily recurrence of paper work—or "red-tape" as it is sometimes called, not without a mild note of denunciation, even ridicule. It is said that, in the past, administrators (no doubt with exceptions) allowed themselves to be bogged down by paper work; they were primarily manufacturers and retailers, so to speak, of red-tape. They seldom took their eyes off their memoranda and files, and took a good look at the wider world beyond. That may or may not be a well-founded or well-meant criticism, but it is one which the administrator of today must always steer clear of. No doubt, a little red-tape is of the very essence of administration and there is no getting away from that hard fact, if we look at things realistically rather than idealistically. And while a little red-tape cannot do a lot of harm, a lot of red-tape certainly can—and little good. For that reason, administrators would do well to eliminate excess of red-tape, and indeed excesses of red-tape, if I may be forgiven for punning on the word. A thing we can never afford to forget—indeed we need to be constantly reminded of—is that we are no longer living in the age of the bullock cart. That age is long past and we are now in an altogether different age, that of supersonic speed. The methods employed by the administrator of today must, therefore, logically fall in line with the speed of this new age.

Avoid Verbiage

One of the ways of achieving speed in administrative paper work is the elimination, where possible, of dispensable verbiage. The language employed on files and what may broadly be called messages through telecommunications should be of extreme brevity, almost telegraphic in composition. That kind of script or text will reduce considerably the output of words resulting in a corresponding reduction of not merely consumption of stationery and stenotyping labour but also of the time of the administrator and of the strain on the telecommunication system itself. The kind of elliptical expression that this reform implies will enable top official executives like Secretaries to Government and heads of departments to take decisions more easily and effortlessly hitherto, in the sense of having to read and digest so much less on files and other forms of red-tape that it is their daily lot to read and dispose of. Under the present system of what may perhaps be called fully spelt out notes and messages, a lot of time is wasted in ploughing through the march of long-winded texts and weeding out excessive, empty verbiage; the hard-pressed senior executives often find themselves confused by copious, complicated notes and are seldom able to come to a decision quickly.

Another way of achieving speed in administration is a more extensive use of the telephone, and a greater reliance on, and mutual trust in, the spoken word among officials than seems to be the case now. At present, most administrators sacrifice speed in an attempt to save their skin, and, in the process, reproduce much that is conveyed by the spoken word as complicated script by way of what they call confirmation, involving considerable waste of time and the breaking of the backs of stenographers, and typists. Officials under the same roof should learn to trust one another; trust begets trust, and much of the writing and typing now employed can be dispensed with, if officials depend more on the spoken word and less on the written—at any rate, for transacting routine business.

Demeanour

If speed in methods is important and indeed imperative, sobriety in manner and mien is no less so. In these democratic days, when the voting and the taxpaying public and their representatives in Parliament and the State Legislatures are supreme, the administrator should be willing to take much that is disconcerting in his stride as part of the price of his calling—and he should do so cheerfully rather than with a long face, as they say. Unfamiliar with the exacting and sometimes embarrassing circumstances in which he works, the public and politicians are sometimes prone to think that the administrator is inclined to ride the high horse, and if, unfortunately, one or two minor instances of seeming tactlessness on his part go to confirm that mistaken impression, they will lose no time in pulling him down from his imaginary high horse in a manner that may well make him lose face for life. Such tragic situations are best avoided, and the present-day administrator would do well to muster together all the tact and humility he can. It is qualities like tact and politeness—even in the face of deliberate rudeness—that help to keep off brick-bats, not an attitude of self-righteousness and injured innocence, no matter how fully justified that may be in impartial eyes.

Such, then, are the methods that caution and commonsense demand in the present-day administrator: such the manner and mien that prudence and popularity dictate. Now, what of the qualities or assets that make a more positive contribution to the administrator's success? It must be remembered here that life in these days of undiluted democracy has become a lot more competitive and complicated than at any time in the past, that the general public is a good deal more articulate in the demands and expectations it has of the unfortunate administrator, and that, unless the latter has certain distinct assets or personal attributes, he is not likely to acquit himself too creditably, in the eyes of those around him who, curiously and capriciously enough, seem to see his failings more readily than his accomplishments. These assets or attributes are, to my mind, primarily four in number: a sense of urgency, a sense of proportion, a sense of justice and a sense of humour. A man's life span is, alas, far too short for everything his heart is set on to be accomplished before he gives up the ghost, and, unless the administrator has the keenness and the executive drive to get things done TODAY rather than tomorrow, he is bound to find himself heavily in arrears every now and then, for time continues to march relentlessly forward, and leaves him behind without ever turning back, if he fails to keep pace. Once the race is lost, there is no catching up with time, and the price for failing to keep pace is losing one's face, which no administrator worth the name would like to, or could afford to.

Sense of Urgency

A sense of urgency and compelling need for dynamic action calls for tremendous executive drive, initiative, and the capacity and courage for quick decision. Sometimes, the administrator will have to take his own decisions, that is, decisions on his own responsibility to avoid precious loss of time, risking in the process his popularity or good name. If he shrinks from a situation of that kind from fear of likely criticism, he is clearly deficient in both character and competence; indeed, he is no more than a clerk who can merely carry out orders, and is demonstrably unequal to the executive responsibilities that may fall to his lot in a senior supervisory role. That is a serious deficiency and those sitting in judgment above are bound to notice it from time to time. Administrators who have gone a long way have all been men of a different stamp; their aim has never been to save their own skin but to get things done—TODAY rather than tomorrow.

Sense of Proportion

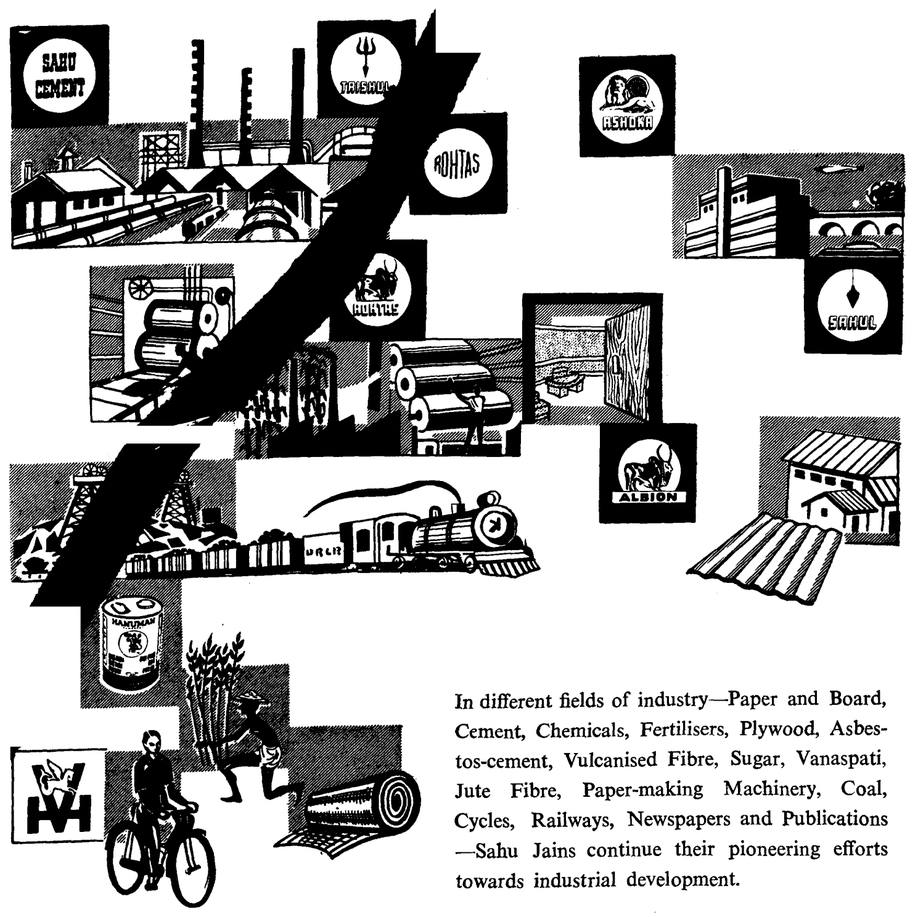
A sense of proportion is no less important; a good, practical administrator quickly decides for himself which of his duties or responsibilities are more urgent or important, call for greater scrutiny or more detailed personal attention. A sense of proportion is essentially the capacity for discernment or discrimination between what matters and what does not. An administrator who is blind or indifferent to this aspect of his work will sooner or later fail to measure up to the exacting demands of his assignment and to the equally exacting standards of his superiors, and it will not be long before he is "dethroned." But if he is of the sensible type and has a sense of proportion, he will lose no time in getting down to the major problems or items, leaving the routine part of his work to his staff. Similarly, in examining and assessing the work of the latter and giving them guidance where necessary, he will employ the same yardstick.

Sense of Values

A sense of proportion is necessary not merely in the disposal of papers but also in the expenditure of money. Even where an administrator enjoys unquestioned discretion in regard to the spending of the public funds committed to his charge, he must have a sense of values and be able to decide quickly what to spend on, how soon, to what extent and with what likely results. It is obvious that he will not have enough money for everything, that some of the proposed items of expenditure must be dropped or deferred. He must almost always (that is, except on rare occasions the recorded circumstances of which fully explain and justify his omission) maintain a written record of his views of the reasons underlying his decisions—his choice of certain things and rejection of certain others.

Sense of Justice

A sense of justice is the very foundation of all good administration and an administrator who is deficient in it, can never be reckon-



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ed effective or successful—whatever his good points in other directions—in the dispassionate analysis and assessment of his performance that is bound to follow after he quits the scene of his labours. Most administrators are wont to complain about one injustice or another done to them by the Government; indeed, some of them sometimes have an unending list of such injustices, real and imaginary, for willing and sympathetic listeners. The latter often go away with the uncomplimentary feeling that the sense of justice of their administrative "friends" comes into play only where a step or measure affects adversely their own personal interests; it is never to the fore where the interests of others are concerned. Thus, when the Government declines to give an administrator a higher pay or the much coveted privilege of participation in a delegation going overseas, it is clearly an act of injustice, even ineptitude, in his eyes, but, when he himself takes a like decision in regard to one of his subordinates (who alone feels the pinch of such a raw deal, not the administrator), it is in his view a just decision—not an unjust one as it is bound to seem to the unfortunate subordinate. An administrator of that kind—one with different standards for himself and others—will never gain (or regain, when once lost) the confidence, and the esteem and loyalty of his staff.

Lord Curzon's Example

It is said that, during his Viceroyalty, Lord Curzon, who was a stickler for justice and fairplay as between man and man, was exercised over an incident, which appeared as a minor news item in the Press, of some British soldiers having been allegedly guilty of misbehaviour with a helpless woman in remote Rangoon. Normally an incident of this kind would be treated as too petty to be brought to the notice of the Government of India, still less to that of the exalted Viceroy and Governor-General, and most Viceroys would, in any case, dismiss it out of hand as too minor a matter to deserve their personal attention. But Lord Curzon was different. He ordered that the whole episode should be promptly inquired into and the offenders sternly brought to book. In giving these orders, Lord Curzon knew fully well that he was risking his popularity with the entire Army and the Commander-in-Chief, who was his colleague in the Executive Council. He would rather see justice take its relentless course than be a party to the hushing up of a crime merely because it was perpetrated by men of his own race and the victim happened to be one of the coloured races. The Viceroy's wishes were duly carried out; as a matter of fact, he insisted on that, not from an imperious love of power and authority but an overriding love of justice and fairplay. It is this passionate love of justice that made him look into memorials submitted to him by the aggrieved, no matter how lowly in life; he was always willing to get down to details and pass appropriate orders himself, instead of being content to pass on the papers to departmental officials as Viceroys and Governors—and, for that matter, even far less exalted administrators—usually did.

Secret of Success

The range of responsibilities and duties of administrators have increased so much since independence that most of them nowadays are inevitably overworked, with their nerves usually on edge. Unless, therefore, they keep their own temper and that of their colleagues and subordinates constantly in check with a strong dose of humour and geniality, explosive situations are very likely and there can be much avoidable irritation, unhappiness all round. A sense of humour not only dr[ives] away but begets g[ood]will and enthus[iasm] those around; it enlivens dull official atmosphere tates the carrying through pletion of cumbersome ad tive processes. It is the o[il], speak, that *mobilises* and the wheels of the administ machine which often has an intr able fifth wheel! All administrat need this priceless gift from time time. Humour, spiced with a gentle warm touch of flattery or personal compliments of the right literary flavour, exercises a fairy-like fascination over people; it can yield dazzling dividends and sometimes resolve the most baffling crises in no time. Disraeli was, perhaps, a greater adept in employing wit and humour in the technique of tackling men—and, as it happened in his case, women—than other celebrities, political or literary, in history; he won over even his sulky sovereign, Queen Victoria, who grew so fond of him that sometimes she began her letters to him as "Dearest Lord Beaconsfield" and ended them as "Yours affectionately." Indeed, such was her tender solicitude for him that, when he passed away, she gave a touching expression of her ardent and abiding admiration for the late Prime Minister by going and laying a wreath on his grave, and, in doing so, she insisted on taking the very route through which his cortege had passed. Contrast all this with her consistently unfriendly attitude to the scholarly and upright Gladstone who was four times her Prime Minister but whose hand she declined to clasp even on the final occasion of his taking leave of her on the eve of his political retirement. The truth is that Gladstone was utterly unlike Disraeli; he had no sense of humour, no geniality. He was all learning and virtue, goodness and godliness. Members of Parliament suffered him rather than enjoyed his speeches; in the case of Disraeli, they found their time most entertaining, and, as they often thought, most rewarding. Historical commentators are not wanting who affirm that such were Disraeli's early social and political handicaps that he would never have been Prime Minister were it not for his ever-present wit and humour, and a geniality that neither hard work nor hard luck ever wholly suppressed.

Politicians

India is a parliamentary democracy and, under such a system of government, politicians are bound to be very powerful—indeed, supreme—and have infinite potentiality for good or evil where administrators are concerned. They can bolster up or pull down an administrator in no time. If they choose to decry him in Parliament or the State Legislatures, he cannot defend himself, for, as a civil servant or as a technical specialist, he cannot be a member of these legislative bodies or even participate in their proceedings on a given occasion to the bare extent of a reading out of an explanation to clear his slandered name. He has, therefore, to be extremely discreet and deferential where politicians are concerned.

Press

The Press is scarcely less powerful in a democratic system like ours; it can be bitter towards the administrator both because of suspected or known lapses and of any provocation he may have unwittingly offered. He cannot held allegations of lapses from unfriendly people, but tactless provocation on his own part he certainly can, and he should avoid the latter at all costs, whatever the provocation he himself receives. On the positive side of his show, he must have effective and ever-widening Press and public relations; nowadays, these constitute a very vital part of a live organisation's day-to-day functioning. Its popularity and prosperity are directly dependent on these. Hence the need for high-powered public relations officers in public undertakings, as in the more important firms in the private sector.

Public Relations

An important factor that influen[ces] an administrator's success or [fail]ure in public relations is his own [appro]ach and attitude to men and [matte]rs in general. An administrato[r] [would] do well to cultivate gene[rous] judgment and expression; [for] the mass are more sentimental[ly] sober or stoic, and love occa[sional] compliments which, incidenta[lly] the Exchequer *no*thing. [He is] not among the overheads [an] administrator has to account [to] either the Audit Departme[nt] the Public Accounts Com[mittee] Parliament can take him to [task] having expended them r[ightly] even on the wrong peop[le]. Compliments by themselves [are] e; a lot depends on how they [are] out. They must appear from strong conviction, not st[udied] courtesy designed to cultivate m[an]. a deep note of sincerity must alwa[ys] be there. It is this note of sincerity (by no means difficult to cultivate) that inspires warmheartedness and goodwill on the other side. The English language is like an extensive, enchanting garden of rich, resplendent roses of breath-taking beauty and of the finest fragrance: why, then, should an administrator be niggardly in the choice of his flowers? He does not have to be; words he can expend freely unlike public funds, and, if he is practical and generous as he should be, he will readily hand a beautiful bouquet to each of his friends and colleagues as opportunities offer themselves. These verbal bouquets flow easily from a facile and felicitous pen, which, incidentally, is not the least among the assets of a successful administrator.

For the rest, there is such a thing as trusting to Providence and to one's own luck and pluck; that and his duty earnestly and honestly done, the administrator can retire with a clear conscience for a good night's sleep at the end of a hard, exacting day.

EVOLUTION OF MONETARY POLICY IN INDIA

(Concluded from page 54)

do not apply to advances made by the co-operative institutions which have been expanding their scale of lending significantly in recent years, financed to an important extent by the R.B.I. However, in this connection, it must be mentioned that, to an important extent, the expansion of co-operative credit for marketing purposes is done with the deliberate object of preventing a depression of post-harvest prices. Even so, in view of the basic uptrend of primary prices in an economy which has embarked upon rapid development, vigilance is called for.

VIII

Summing Up

From the foregoing account, it would be seen that, in recent years, progressive use is being made of monetary policy to achieve the object of economic growth with stability. It is hard to say precisely to what extent this endeavour has met with success. Judging from the trend of the two principal economic indicators, namely, a more or less continuous rise in commodity prices (although over a longer period, the rise in India does not perhaps compare very unfavourably with that of many developed economies) and a substantial decline in foreign exchange reserves, one might be tempted to conclude that monetary policy has been ineffective. Such a conclusion would be a hasty one. The dimensions of the forces making for imbalance in the economy have been large and complex—large budgetary deficits and marked fluctuations in agricultural output, to mention a few. The fall in exchange reserves was largely a deliberately planned one, to finance the larger volume of investment which is being undertaken. On the other hand, it cannot be said that monetary policy has been given a real trial, until very recently. The system of penalty rates and raising of bank lending rates would appear to have already produced a salutary effect. Lenders and borrowers have become cautious. The higher cost credit is also being rapidly transf[erred] to the so-called unorganised [sector] of the money market, which [is a] logical development; while [in] the organised sector may n[ot] the same result, at least pro[vided] tightening of rates woul[d] only be transmitted promp[tly] we have, of course, been co[nfident] that the cost of industrial [credit] would go up, but these [fears] little validity, by and large. [Moreover] the fears that credit may no[t be] available for genuine requi[rements] seem to be unfounded; in fa[ct] the R.B.I. announced the s[cheme] for its lending, it removed [certain] *rigs* that had been earlier i[mposed] on its advances to banks u[nder] bill market scheme. In o[rder] ds, while the Bank raised t[he] *cost* of its lending it pro[vided] larger *availability* of credit.

It might be correct to say that the experience of monetary policy has not been long enough to draw very precise conclusions, though, as mentioned at the beginning of this paper, monetary policy has many limitations. It could, perhaps, be said that monetary policy has at least helped *restrain* the growth of inflationary pressures inherent in a rapidly growing economy. Certainly, it has not led to aggravation of inflationary conditions. Basically, the process of development with stability requires a rising rate of saving and monetary policy can make some contribution to this end. The techniques of monetary policy should be modified as and when necessary, as, indeed, they have been. There are, however, 'patent *medicines*' for meeting many situations and the Lord gives no dispensation to any country from the ordinary credit principles, to borrow Mr. Per Jacobsson's expression. And, in this connection, although political and economic conditions are vastly different from the time when Henry Thornton wrote his treatise on paper credit in the U.K., his observation that "To suffer either the solicitation of merchants, or the wishes of Government, to determine the measure of the bank issues, is unquestionably to adopt a very false principle of conduct" is not without some significance for the present-day world.

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RECIPE FOR SUCCESS IN ADMINISTRATION

By A. D. GORWALA

NO one who has had any real knowledge of Indian Administration can read the paragraphs on it in the Government of India's Draft Outline of the Third Five-year Plan without a feeling of deep sadness. "Dear God," he can scarcely help exclaiming, "can they still be at this level! Such meagre understanding, such marked complacence!" In a short while, he realises that this writing is but another facet of the same superficial thinking that plans so grandiloquently but sketchily that new steel mills cannot function because the coal for their furnaces has not yet been mined, or, if mined, cannot be transported to the site of use for lack of wagons, that enters into large contracts for oil imports without arranging storage or sale, that builds huge irrigation works and forgets essential field channels, that hails its Community Development scheme as a social revolution, that hopes to find a new millennium in what it terms democratic decentralisation or *Panchayati Raj*, that sees in Prohibition a most successful measure of social reform and economic betterment, that constantly proclaims its desire to hold the price-line, while carefully turning away from doing any of the things essential for holding it.

The modern Indian recipe for improving public administration is, indeed, remarkable. It is compounded of various elements. Take a Prime Minister who keeps on telling publicly, in and out of season, his principal servants, on whom he relies for the framing and carrying out of policy, that they are wooden, hide-bound, caste-ridden, ignorant of the people's needs and unable to understand them, who is inclined to regard honestly held views expressed in opposition to his own by such servants, as indications of disaffection or stupidity, whose bad judgment of men is notorious, and who seems quite determined to protect dishonest politicians by refusing to have investigated, by independent authority, even the *bona fide* complaints of responsible people. To him, add Ministers at the Centre and in the States, to most of whom the whole idea of a permanent Government servant being a colleague engaged in a common task is anathema, who, in fact, are of the view that there should be very little difference between a Government servant working under them and their own private servant, that the former's behaviour should in any case approximate to that proper to the latter, that his real role is not to tell them what the law is and what he thinks under it the public interest demands but to find ways of doing whatever they want done, setting his conscience at naught if necessary but without troubling them about it, and the large majority of whom, distinguished neither for intellect nor industry, also look upon their posts as opportunities of personal, family, caste and party aggrandisement. Strengthen the mixture with legislators seeking their own places in the sun and determined to have them, via the Minister if necessary, whatever the Government servant may urge is right and proper, and with influential, unscrupulous business men, clients in the Roman sense of the Ministers, whose party-chests they fill to the brim, and whose private jobs they are reputed not to be averse to doing, always knowing that, even if the reward tarries occasionally, it is bound to come. Sprinkle in important places, Government servants of the right flexibility for such conditions, passing over if necessary honest men addicted to principle and decision on merits, terming them rigid to justify the supersession. Decorate with a report or two from some foreign expert who, little understanding Indian conditions and necessities, regards corruption as hardly worth bothering about, and pays glowing tributes to the political leadership, tributes that can be always quoted as certificates. Scatter all over a great deal of management and organisation and methods jargon, and place prominently on top an Institute of Public Administration at the capital with branches in the State capitals, to publish magazines and brochures, hold meetings, arrange seminars, have visiting professors, produce in fact an air of great happenings and significant doings, taking care all the while, through suitable arrangement, to see that these bodies, while appearing independent, never really exercise independent judgment to the extent of causing the Government any embarrassment. In the result, is there anything to be surprised at in the tremendous advance in public administration so clearly visible all over the country?

Advance Or Deterioration?

The advance seems very striking to those conditioned to look for it. To others, the unfortunate accustomed to see things as they are and not as authority wants them to be seen, it may not appear to be there at all. It may even look like deterioration. The Prime Minister and others of his type are always urging the educated, doctors, engineers, students to go to the countryside. They are often contemptuous of the reluctance shown by the young to follow their advice. Do they realise that, in large parts of the land today, life in the countryside has become extremely unsafe, that law and order have fallen largely into disrepute, that no man can be sure of his life, property or liberty if he offends the local bosses, that investigation of crime itself is done by the local police official in consultation with the local bosses, and that any interference with the investigation in the interests of justice by the higher officials, police or revenue, leads to such a spate of allegations through legislators and other influential people against them that they hastily retreat to their desks, content to busy themselves with papers and leave doing alone? Have they any idea of how much the *Panchayati raj* they are all so enthusiastic about will add to the power of these local bosses, and how much more difficult it will be for the simple individual in the village who wishes to lead his own life and be left alone, to escape oppression and tyranny? Perhaps, it may never have struck them that the general maintenance of law and order in a *tehsil* or a *taluka* has rested not so much on the one sub-inspector and fourteen policemen who form the force within it as on the respect men have felt for the entity of Government, renewed from time to time by the conduct of some high official of whom it was rightly said, "Good man he was and there was great awe of him. In his days, no man dared to harm another." The conditions of their rule, their constant interference with matters well within the official's competence, the contempt they openly express for their servants, have made it almost impossible for such men to appear, and as to respect for Government, how can Governments that all know to be approachable in most devious ways command respect even from the simple?

Says the Planning Commission's Third Plan Outline: "The need for securing efficiency and speed in execution and widespread confidence in the integrity of the administration at all points affecting the general public have always been stressed as vital problems in economic development." True, they have been stressed in the first and second Plans and even before that, for, in an introductory note to the 1951 Report on Public Administration, the Planning Commission declared, "there can be no doubt that clean, efficient and impartial administration is the first condition of successful democratic planning." The point, however, cannot be met by emphasis and reassertion. Clean, efficient and impartial administration just don't happen by saying they should be. They are not self-executive. They have to be brought about. To bring them about is the task of men, primarily of the Prime Minister and his Cabinet at the Centre, of Chief Ministers and their Cabinets in the States, and of all the officials. Is the administration today cleaner and more impartial than it was ten years ago? No one aware of what is going on in the country dare say, "yes." Is it more efficient than it was ten years ago? Again the answer unfortunately has to be "no." The first condition of successful democratic planning has then not been fulfilled. Is it any wonder that the democratic planning of the Planning Commission, the Government of India and the States has not been successful? Is it also any wonder that institutes, courses, working-groups, seminars, volumes of instructions and letters by Ministers, organisation and methods cells, economy sections, foreign professors, observers and advisers, many more M.As and Ph.Ds in Public Administration, have not made any difference? They can in the very nature of things be no substitute for honesty, impartiality and efficiency. The confidence of the public can be won by action consistently animated by these qualities. In their absence, no amount of devices and gadgets, however modern and well-spoken of, can help.

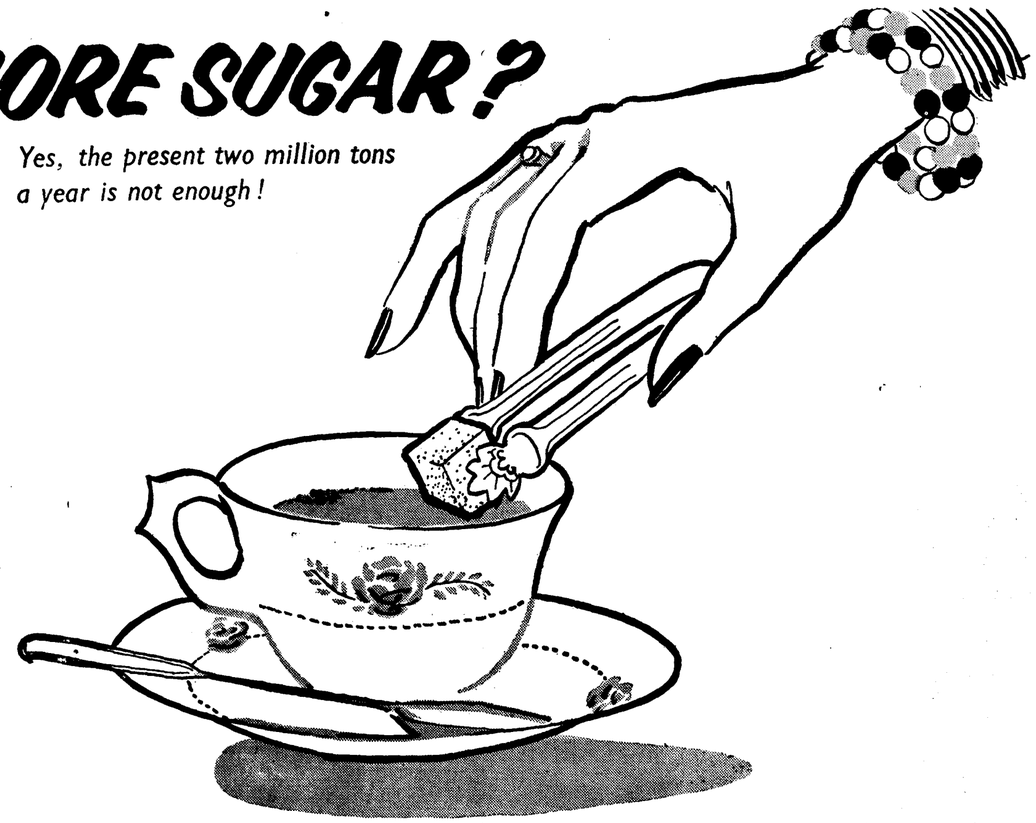
Merits of Civil Service

What makes the current situation even more deplorable is that Indian Administration inherits a lofty tradition. Administration, comparable to that of modern times, flowered and bore fruit in the days of the Maurya Emperor, Chandragupta, under the fostering care of his wise Minister, Kautilya. The noblest of the Moghuls, Akbar, with the help of the ablest and best of his chief feudatories and officers, Rajput and Muslim, nurtured it. Working along the well-marked lines of the past, the British contri[illegible] the Indian Civil Service, [illegible] one of the finest of the [illegible] Government in [illegible] orld. "*Noblesse* [illegible] the beginning [illegible] the [illegible] otto of the Indian [illegible] he only role of the king and his officers was, according to the Hindu tradition, the service and safeguarding of the people. No other justification was there for their existence, and always the greatest emphasis was placed on the personal integrity of the ruler. Justice, even-handed and equal, with security for the people and the lessening of the burdens on them so that they could be prosperous, were the aims of Indian Administration under Akbar. The ideal of the Indian Civil Service, too, was truly to serve where it ruled; its desired code of conduct: courage and the highest integrity. At all times, of course, there were some who fell away from these standards. Yet these were the standards.

Honesty At Discount

Today, however, few are the writers of honest reports. When by some strange inadvertence, Government has appointed to inquire and report a principled and knowledgeable person who gives his views without fear or favour, the normal course is to put forward plausible arguments for not doing what everybody, including those adversely affected by the recommendations, know ought really, in the public interest, to be done. Confident in the belief that "The devil himself seeth not the hearts of men," they sometimes turn furiously upon the maker of honest reports, attacking his knowledge, expertise and impartiality, in their anxiety to prop up a case against his views. They thus depart from the custom of even a few years ago, when, however little the willingness of those to whom a report was submitted to act upon it, the report and its author were at least not maligned, the work being, on occasion, even acknowledged to be good, and the worker deserving of thanks. Later times, however, bring newer manners, and now Indian Administration has reached a stage when the maker of a frank report, having only the public interest in view, devoting freely his time and labour to it, prepared to consider his work, like virtue, its own reward, must, in addition, learn to regard it as his sole defence against the discourteous and malicious attacks of some of those touched by his recommendations, and of their partisans, political, journalistic and even academic.

That patron-saint of administrators and gentlemen, Confucius, was asked 2,000 years ago, "What is Government?" He answered briefly, "Straightening." Today, too, in the main Government is straightening, thinking straight thoughts, making straight policy, taking straight action, straight being always that which serves the public, and no sectional, group, party or personal, interest. Straightening is not impossible in India. Ours is, in many ways, in spite of all its problems and differences, not a difficult land to govern. In the hearts of most of us, even when we do wrong ourselves, there is appreciation of the right and the straight. A Government that lived by these would receive overwhelming confidence and support. But the questions remain, "Can the crooked straighten? Must they not straighten themselves first?"

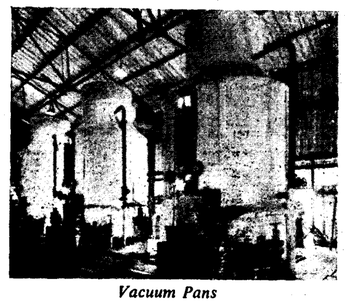


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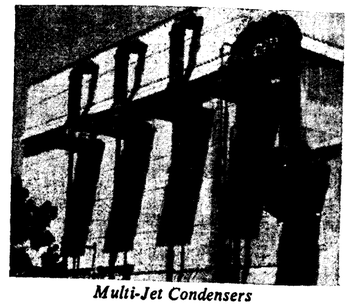
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PRODUCTIVITY IN INDIAN BANKING

By C. H. EHABHA

WITH the well-recognised need for rapid economic regeneration in the second half of the present century, banking in India necessarily requires a proper realignment of itself to fulfil its mission and to meet the challenge of the future bravely and successfully. To ensure the satisfactory culmination of our cherished economic programmes, Indian banking must also chalk out its own programme of growth and readjustment after giving due consideration to the solution of some of the vital national problems that confront it. Banking has been familiarly mentioned as the life-blood of the economic system. If this life-blood is to continue to circulate with proper strength or vigour, it needs to be divested of several impurities that may have wittingly or unwittingly found a refuge in it and thereby polluted its content.

Among the various factors which retard the faster growth of Indian Banking, the most pronounced has been the very low level of output per man employed. This paradox of lethargy in individual effort side by side with the speed which is characteristic of our present atomic age leads to widespread ripples of unfavourable conditions and circumstances, which, in turn, affect adversely the pace of our growth and progress. Such an unhealthy state of affairs needs to be examined most carefully and remedied, even with some drastic doses of purification or reform. No doubt, this feature of low productivity is not peculiar to the field of banking in India. In many other economic activities, too, the same feature acts as a deterrent or as a destructive force and many a vigorous effort is already afoot for its elimination so as to ensure faster growth and steadier progress. Whatever may be the measure of success which these efforts achieve in other directions, it can safely be asserted that, particularly in an all-important economic activity such as banking, if these unhealthy symptoms are not detected in time and drastic remedies are not detected and drastic remedies are not applied, all our economic plans and programmes will be most seriously affected and may even have to be given up altogether. That, in turn, may mean a revolution of frustration, instead of a revolution of expectation, and lead to a violent upheaval of an unfortunate nature in our land of great potentialities and ample resources.

Unduly Expensive

While it is well known that banking facilities are notoriously inadequate in India, it may not be equally well known that the servicing of banking in India has become an unduly expensive business for the reason that many more times the number of people are needed to handle the same work in our banks as compared with the number engaged in other progressive countries of the world. Even a cursory observation of some of the branches or the main offices of established and world-famous banking institutions, whether in the U.S.A., England, West Germany or Japan, discloses that a far less number of people are needed in many of these branches or main offices than those one is accustomed to see in India. In one of the topmost banking institutions of the U.S.A., the total number of employees is less than the total number of employees in one of the leading commercial banks of our country. No doubt, the latter has a much larger number of branches than the former, but, at the same time, one must not overlook the incomparably higher turnover, wider operations, the more manifold character of business handled and the bigger magnitude of the transactions in the American banks.

From the available data of the American banking system, it has been observed that the total number of employees in this particular vital field of economic enterprise has increased by no more than 12 per cent. during the last quinquennium. It is true that technical improvements and elimination of wasteful and time-consuming processes in the mechanics of banking are responsible for preventing an unduly large increase in the total number of persons employed, even though there is considerable expansion in the size and volume of this ever-growing, important and complicated business of dealing with money placed in trust with banking organisations. But such technical improvements apart, one should not underestimate the solid enthusiasm and efforts of these employees to do everything possible to increase their own workloads and take up on their own shoulders greater responsibility, thereby stepping up the quantum of business handled by them year after year. In India, however, from rough estimates, it is gathered that, in 1960, there are 80,000 people employed in the banking industry. As compared with the figure of 45 000 employed in the year 1955, this shows an increase of 78 per cent. within a period of five years. While it may not be quite proper to draw general conclusions from these figures, yet this should be sufficient to arouse searching inquiries about the way in which banking business is conducted in our country and about the need and urgency for reform.

Move With the Times

In the context of the total number of people employed in Indian banking, it may be useful to point out that the proportion of officers to clerical and other staff is roughly 1 for every 5.5. No specific research has so far been made to determine what should be the most satisfactory ratio of officers to others in the banking industry. This may well-nigh be an impossible task, as it is bound to vary widely from country to country or even from place to place, depending upon the work habits and capacity of the local personnel and numerous other divergent features and factors. Nevertheless, one thing which needs to be specially attended to in India is the need of proper, systematic and intensive training in banking before any of the responsibilities attached to this work could be entrusted to the employees. It is gratifying that the central banking authority in India has been showing special interest in this direction during the past few years. Likewise, too, other important and progressive banking institutions of our country have taken steps to see that persons employed in this industry are properly trained and groomed to discharge their functions and duties and to maintain certain standards of efficiency in this very complicated and responsible business. Along with that, the universities in India have also taken a special note of present-day tendencies and tried to evolve courses for banking and other allied subjects. Side by side with this, it is necessary to have a very careful and clearly formulated policy of recruitment for banking institutions. In the good old days, it was generally stated that a banker is born and not made. While there may be quite a few grains of truth in such a theory, the rapidly changing conditions of modern society, with new doctrines of economic progress, underline the need for some fundamental training and experience before one could claim to function as a banker. Hence it is necessary to eliminate artificial interference and regulations which prevail in abundance and are ever on the increase. The basic needs for selection for the specialised work of banking cannot, by any stretch of imagination, be put on the same footing as the requirements of other types of clerical or supervisory work. If this is deeply considered, it would be found that many of the recent edicts and rules framed by the powers-that-be for application to banking institutions are unwarranted and must be radically modified, if not altogether scrapped.

Rate of Rise in Wage Bill Heavy

The problem of productivity in Indian banking has attracted greater and wider attention during the last few years on account of the efforts made to fix scales of salaries and other emoluments for the clerical and subordinate cadres. It has been noticed that, on an average, the bill of banks in India, in respect of salaries, provident fund contribution, overtime, etc. (comprising total emoluments) has been increasing at an annual rate of about 8.9 per cent. In the opinion of many dispassionate observers and experts, such an increase is considered very unhealthy and fraught with a variety of dire consequences for all facets of the economy of the country. For an essential service like banking, it is felt that there should not be standardisation of benefits and emoluments for any of the ranks of workers. Besides leading to deterioration in efficiency, such regimentation bespeaks a lack of true evaluation and appreciation of the great and special responsibilities attached to banking duties. This harmful feature which has recently crept into the Indian banking system can be more pointedly observed from an analysis of the data pertaining to 31 Indian banks which discloses that the *per capita* annual earnings of officers which used to be Rs. 5,455 in 1955 have increased to Rs. 6,258 in 1959, that is, an increase of approximately 13 per cent. in the past four years. As against that, during the same period, the average earnings of clerical and other workers in banking establishments increased from Rs. 1,741 in 1951 to Rs. 2,113 in 1959 which indicates an increase of approximately 24 per cent. All this cannot but lead to the conclusion that, if banking in India is to perform its mission successfully and make its services available to the community as quickly and as efficiently as possible, many an unorthodox measure will have to be taken by the authorities and supported wholeheartedly by the industry itself.

Another important feature affecting adversely the attainment of a high level of productivity in Indian banking is the steady increase in the number of officers needed to supervise and control the assets of banks in India. It is no doubt gratifying that now, for the first time, the total deposits with banks in India have come to exceed the total currency in circulation last year. That by itself is a notable feature and marks a big step forward in the field of banking in our country. But, it must not be forgotten that in other economically developed countries of the world, bank deposits are several times more than the currency in circulation. Of course, if the steady march of Indian banking is maintained and some of the millstones round its neck are removed and the cobwebs which encumber the body of Indian banking are cleared away, it may not be too long before the deposits in the banking system amount to at least a few times the total volume of currency in circulation. For that happy goal to be attained as fast as possible, a strict examination of the controlling and supervising authority needed in the banking system of India must be ensured on some sounder and more farsighted basis than hitherto known or experienced. Whilst some data are available, it may not be possible to dogmatise on this facet of this intricate industry. However, from an examination of figures published by the Federal Deposit Insurance Corporation of America, it is noticed that the average number of officers and supervisors needed for assets of $1 million remained constant during the past 10 years. Thus, the figures for 1949 and 1959 are almost the same, being 2.39 and 2.38 respectively. The average number of officers and others employed for each Rs. 1 lakh of assets of the banking industry in India increased from 1.57 in 1955 to 1.90 in 1959.

One can well appreciate the following two special features that have been in operation:

(a) that the average number has steadily increased in our case; and

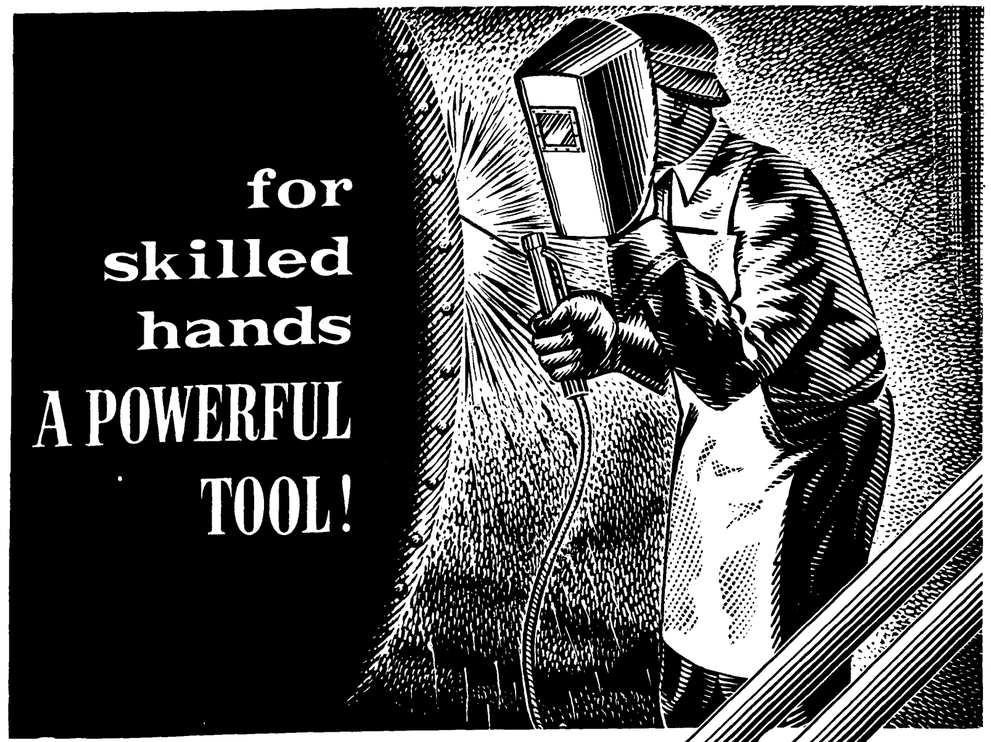
(b) that the number that is needed for keeping a watch on one million dollars here is almost 37 times the number of officers and others needed for guarding similar assets elsewhere.

Mechanisation

In an industry like banking, it is futile to think of fixing workloads all along the line. That by itself should awaken the authorities and make them recognise the very special and technical nature of this particular industry. If that is appreciated, no further time should be allowed to lapse before encouraging and stimulating an all-out programme of mechanisation and rationalisation in Indian banking industry. Undoubtedly, even now some feeble attempts in this direction have been made by banking institutions in India, despite all sorts of obstacles that are put in their way from various quarters, including the official. Thus, it can be specifically stated, for instance, that, in some institutions, where expensive labour-saving devices have been introduced, the managements are compelled by official fiats or directions to pay to the operators of such machines emoluments of at least 25 per cent. more *vis-a-vis* others and, in addition, it is laid down that the operators should put in less number of hours at their job as compared with their confreres in the same office. One can realise from this what a great national loss results on account of such a short-sighted policy.

Perhaps, the improvement in productivity in Indian banking is also checked artificially, on account of the fact that the industry is being compelled to perform a number of duties and services which do not yield any adequate recompense to itself. Thus, one finds that the extra work of collecting, collating and tabulating some of the internal statistics which are required to be supplied to the authorities several times a year imposes a heavy burden which is not bringing any direct or distinct rewards to the institution itself. In addition to all that, under our Indian laws and conditions, banking companies are coerced to spend time

(*Continued on page 70*)



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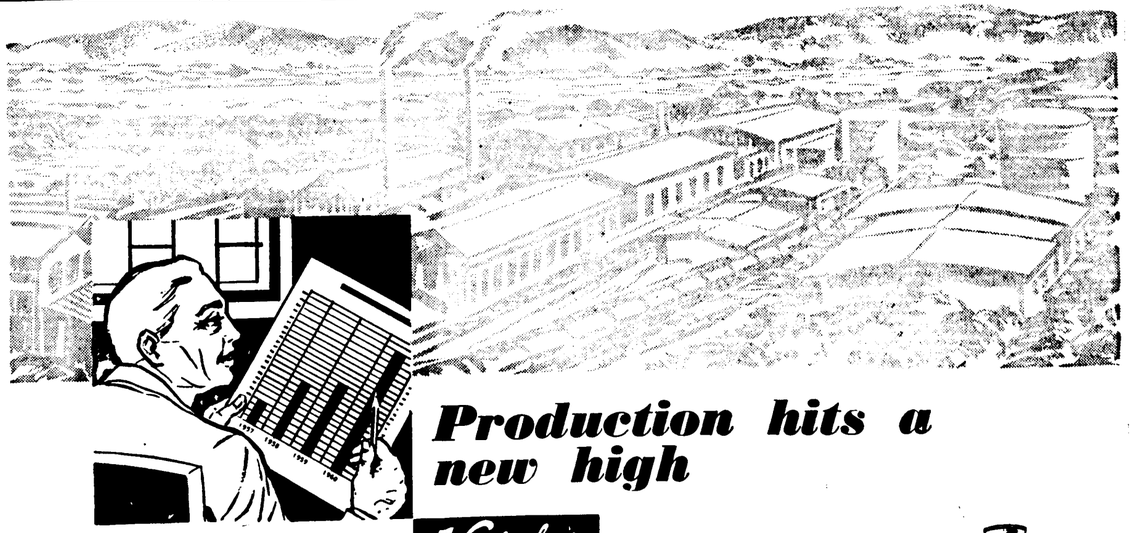
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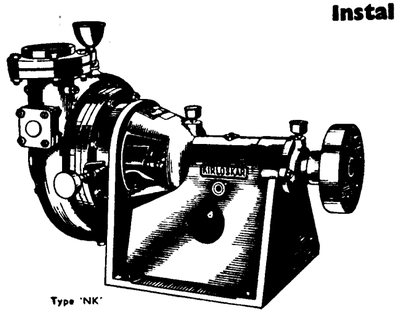
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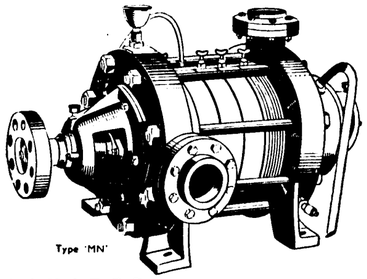
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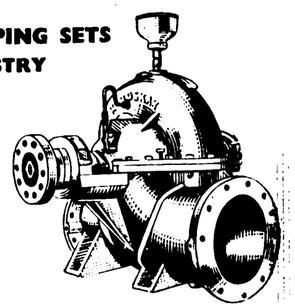


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THE NEW RESPONSIBILITY

Implications of Controlled Economy to Governments

By A Special Correspondent

IN the old days, which were good or bad according to one's personal economic theories, most business men were left to fend for themselves and to do the best that they could with available resources. There was scanty attention to labour welfare, and an undertaking was judged to succeed by the size of its profits and to have failed by the speed with which it went into bankruptcy. As a result of this policy of *laissez faire*, Britain and other industrial countries in the world acquired—and acquired speedily—both wealth and slums, and, in most of the Midlands and in the Northern counties, the scars of the industrial revolution still remain.

In the last hundred years, there has been a growing distaste for the idea that the success of a business is to be measured in profits alone, and the humanitarian activities of the individuals who fought for the rights of labour have been first supported and then supplanted by the efforts of the State.

It is natural that India, where the industrial revolution is in a sense only just beginning, should seek to avoid the errors which have been made in other countries, and that it should endeavour to ensure that the countryside and the worker should be protected against spoilation. As a result, there has been labour legislation, covering almost every branch of industry, but perhaps no industry has so comprehensive a code as the plantation industry, wherein the employers' obligations are laid down with unparalleled completeness. In consequence, India can invariably point with pride to the fact that her plantation labour laws are ahead of those of other plantation countries, while I.L.O. Conventions in respect of plantation labour are often in the main a recapitulation of what has already secured legislative support in the plantations of this country. A moralist might regret that legislation should in many quarters have preceded the will of the individual, but there must be satisfaction that the State is seeking to prevent errors and to rectify past omissions.

Implications of Controls

To the laws which regulate the relationship between master and man there have had to be added a further set of controls, necessitated by India's need to conserve foreign exchange, and by the obvious wisdom of supervising the distribution and utilisation of materials which are in short supply. These controls, which had no counterpart in the industrial revolutions in the eighteenth century, restrict the free play of normal economic forces, and govern, to a remarkable extent, the day-to-day working of even the simplest industry, let alone of an industry like tea. Thus a business is, for example, obliged to send its produce by special routes, to buy its requirements in special markets at fixed prices, to sell certain proportions of its production in definite centres, and, generally, to organise its affairs in accordance with strict and comprehensive official instructions even though it may be in the private sector. It is illegal to buy coal, steel, cement, fertilizers, tinplate, and many other commodities, save with permits granted by authority and in accordance with authority's direction. Foodstuffs for workers can often only be purchased from official sources, and though there is good sense in regulating the volume of individual entitlement, it does not always happen that the commodities which are bought are of the best quality or are those which the consumer would buy if a free market existed.

Dangerous Approach

There is a third and very significant set of controls, partly embodied in legislation and partly embodied in public opinion, which derives from the unfortunate fact that "business" is suspect in many eyes. How much of this suspicion springs from the daily encounter between consumer and merchant in the market place, how much arises from unhappy personal experience, and how much is the result of simple envy and prejudice it is not the purpose of this article to try to fathom; but it is certain that the prejudice exists, and that it has led not merely to additional rules and regulations but to what the writer regards as the very unfortunate feeling that "profits" are rather shameful things, the more shameful the bigger they are. This attitude, which at times tends to assume that the ideal business is one which just pays its way, finds expression in the oft-repeated remark at employer-employee discussions "that profits are not necessary because we can always get money from the World Bank and similar organisations." This is a most dangerous approach.

Naturally, no one would commend the employer who made large profits from slave labour, but, with equal certainty, if the man who makes two blades of grass grow where only one grew before is regarded as of dubious honesty, instead of being awarded the title of "hero", much of the enthusiasm goes out of enterprise, and the country is the poorer as a result. Moreover, the concealment of profits, if one is clever enough to make them, may easily be a consequence not merely of taxation but of the social stigma which in some impracticable circles attaches to the word "profit," while a parade of sham poverty replaces pride of achievement. As well go to a university and learn nothing as run a business which creates nothing, for it is the profits of undertakings which provide the basis for the improvement of the community.

Governments' Obligations

It follows from what I have written that, when the private sector is so closely controlled and so jealously regarded in so many of its activities, Governments have a special responsibility for ensuring that they should replace by their own efforts those legitimate activities which the individuals or industry would normally have been able to exercise themselves. Thus, if Government requires one to buy tea chests from a certain supplier and from no one else, Government assumes the obligation of ensuring that that particular supplier gives good value. Similarly, if foodstuffs can only be purchased from Government godowns, Government is under an obligation of making sure that value for money is given just as though the buyer had freedom of choice. If coal has to be purchased from certain collieries, not because the coal in question is necessarily most suited to the work in hand but rather because it is deemed to be in the public interest that these particular collieries should supply a particular need, Government must exercise, on the part of the purchaser, those same powers of selection and rejection which, in a free economy, a purchaser would normally have a right to display.

In other words, to the extent by which freedom is, in the general interest, denied to the individual, official agencies must assume a responsibility for safeguarding the individual's interests by reason of the withdrawal of his right to run his business as he likes, provided he observes the law. These agencies have thus become the custodians of the rights which Government has, in the general interest, appropriated, and these rights must be exercised vigorously in the interests of those from whom they have been assumed.

I have indicated that the tea industry is as regimented as any other in the matter of the purchase of its supplies and in the control of its activities. This means that, if Government required improvements in quality or increases in the quantity of teas produced, Government, having deprived the "industrialist" of certain of his normal legitimate functions, must replace those functions to such extent as they are necessary for the furtherment of Government's objectives.

Fertilisers

At the present moment, there is under preparation a detailed programme for the tea industry in the third Five-year Plan. Government, the country, and the industry have an obvious interest in maintaining production and quality at the optimum levels, and it is only natural that Government should display this interest in tea, which is the country's largest earner of foreign exchange and biggest employer of organised labour. Moreover, at the present time, the North-Eastern frontiers of India have assumed a new significance, and, economically, socially, industrially and internationally, the success of the tea industry is of paramount importance to the country as a whole. If, therefore, the tea industry is to play the part which all expect of it, it must either be given freedom to develop on its own lines, or if such freedom cannot be given (and, in the twentieth century, it is probable that, save in parts of the Americas, industrial freedom is at a discount), then those in charge should provide the facilities which normally would and could have been secured by the *entrepreneurs* themselves. For example, the scientific station of the Indian Tea Association has recommended that the existing acreage under tea requires the allocation of 100,000 tons of sulphate of ammonia. Owing to the need to conserve foreign exchange, so far only 51,000 tons have been allotted for the coming season, that is, 20,000 tons less than the industry had hoped to secure. Here is a clear case in which overriding considerations of a national character limit the ability of an industry to work to capacity. There is not only the question of a loss of crop, with its international significance, there is also the fact that, if crop is reduced in India, other countries will



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usually fill the gap. It was never imagined, for example, that it would be possible to restore so quickly tea production to its international levels after the Japanese occupation of Indonesia, but, by the generous application of fertilisers, India and Ceylon eventually made good the shortfall which resulted from Indonesia's exclusion from world markets. It would be wrong for us to suppose that, if tea production in India declines in quality and quantity, by reason of an inadequate supply of fertilisers, other countries will not be able to make good the loss. We would then be left producing less tea and without the benefits of the higher prices which usually follow a fall in production.

Taxation

So far as taxation is concerned, every business man recognises that the country needs money and that taxes have got to be paid. There is too much leeway to make up in social services and in other matters for anyone seriously to challenge the need for the heaviest possible taxation upon profits and income. I do not propose to say whether the present level of taxation is too high or too low, or whether it has become a direct disincentive to work, but I think that the tea industry has been particularly unfortunate, in that its general prosperity has been gauged not by the receipts from taxes on *profits* but largely by the receipts from taxes on *production*. Each kilogram of tea which is produced bears production taxes of one kind or another which may amount to nearly a rupee, and I can conceive of nothing more discouraging to those who think of expanding, either by laying out new acreage or by improving machinery, than the thought that for every extra kilogram of tea which they produce, whether their venture is a success or failure, they will be obliged to pay nearly an extra rupee in taxes. If their profits increase, by all means let there be taxes upon these extra profits, but we are firmly of the view that, in an expanding economy, when we are asked to undertake heavy capital expenditure which will probably produce few returns for four or five years, taxation upon production can only be a disincentive and can only act as a barrier to the fulfilment of wishes to expand—wishes which are shared equally by the industrialists and by Government. We have, therefore, pleaded, and shall continue to plead, for some recognition of the fact that to tax our production is to make increased production extremely speculative and unattractive. Even a taxation holiday for new production would be an encouragement, and there could be no talk of "loss of revenue."

An Illogical Policy

It is also for consideration whether the standard of labour benefits which is expected from the tea industry is not being sought too precipitately in the context of a "belt-tightening economy." It is the objective of every good employer to make employment for his workmen as permanent and as happy as possible, and, by and large, workers in the tea industry have enjoyed these two great assets ever since the tea gardens came into being. They may not have enjoyed housing up to urban standards, nor have many workers in urban areas, but the construction of *pucca* houses for over a million workers and their families is not a matter which can be carried out even in a decade. It is a long-term policy, and the greater the past neglect, if indeed there has been neglect, the longer it will be before past neglect can be put right. We have accepted the need to give the best houses possible resentful of the fact that, though we alone have the obligation to provide houses, we alone have up to now been excluded from Government subsidies and loans for this purpose. To argue, as some do, that because a thing is statutory one should have no assistance in carrying it out is illogical, and, if there is to be insistence upon the fulfilment of housing programme, because such housing programmes are in the national interest, it is logical that such programmes should receive no less aid than similar work carried out where there is no statutory obligation and where the national interest is not so seriously involved. It is never easy to suggest that, in labour matters, Government is going too swiftly, because, if there is leeway to be made up, the sooner it is made up the better; but those who are called upon to make up this leeway must be left by Government with the resources to enable them to do so, and it is in this respect that the tea industry in many of its branches is at a disadvantage.

To levy taxes is reasonable: to expect an improvement in the standards of employment is reasonable: but there must be a balance between the two themselves, particularly if the industry is simultaneously expected to expand its activities and to increase its acreage under tea and its exports in a competitive world.

Plea for Reason

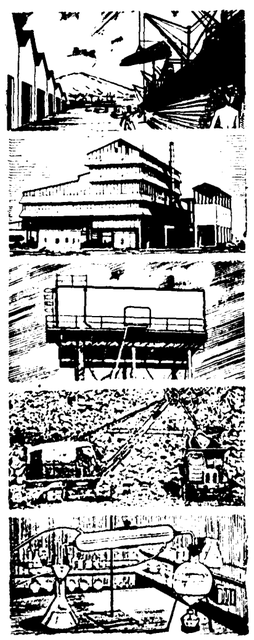
My request, therefore, is not for preferential treatment or for general relaxations or similar favours: it is rather for a recognition of the fact that there is a limit to what can be done with the resources at one's disposal, and that, since Government is so largely in control of the means of production and of transportation, and takes so large a proportion of sale receipts in the shape of local and central taxes, there should be a general appreciation of the fact that, if the tea industry is to expand, the resources for such expansion must either be provided by Government or, if they are available, left in the hands of the tea industry.

India may well be able to become self-supporting in many of the articles which are now imported, but only exports can wipe off the debts which have to be incurred in the process: and, of the already established industries, tea is still the greatest earner of the foreign exchange which is needed, if the cost of new industries is to be met and if further industries are to be established. There are pessimists who feel that the burden of taxation upon Indian tea has enabled competitors to establish themselves in other countries, and that these competitors will be able to snap up whatever new tea-consuming markets are created. There are others who point to the manner in which Ceylon has forged ahead, through her convenient geographical position, and wonder whether India can recover the ground which she has lost over the last decade: but the demand for tea must grow with population increases and with the spread of leisured habits (even television has helped) and there is no reason why Indian tea should not win a share in this new prosperity, if Governments actively associate themselves with the industry not merely in the necessary duty of control but also in the overcoming of the industry's difficulties.

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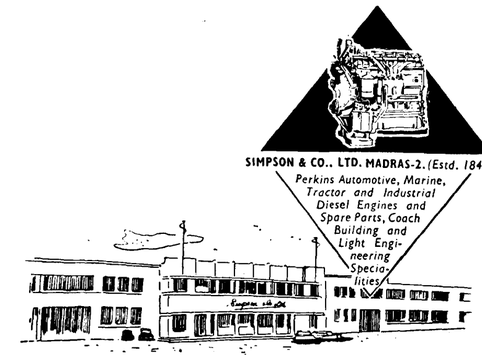
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SOME THOUGHTS ON EDUCATION IN INDIA

Raise The Standard — Instil A Sense Of Discipline

By A. T. MATHYOO

WRITING on education as it obtains at present in India, one is forced at once to recall recent happenings among the student communities in many parts of the country—Benaras, Aligarh, Calcutta, Kerala, Lucknow, to mention a few names that lend appellation to many an Indian university. The question inevitably arises—is all well with Indian education? Is indiscipline among a section of the nation more rampant than of yore, and, if the answer is "yes," what may be the cause and the remedy? What in effect is our educational policy and system achieving in this welfare State? One dare not venture to answer all this without being chastised for making sweeping conclusions, for, in a land like ours, where we are attempting many reforms and trying to make headway in shorter spans of time than others in order to catch up with the rest of the world, we have to tread varied fields, adopt and adapt diverse means and methods, and perhaps reject many well-tried courses, before evolving an effective system that may be found practicable and yielding sound results.

The Function

What, from a layman's angle, is the function of education? If only a cursory view is required, the answer is: to widen the mental horizon of the pupil in order that he may be a useful, productive citizen. Usefulness and productivity can and must take many forms, but the most important are moral, civic and economic. The last category today includes the field of science, for, in this age of technology, the economy of a nation is well-nigh bound with its scientific development which in turn is based on the technical personnel available to and in the country. An educational system that seeks to develop a child's horizon in one or the other field of knowledge in order, eventually, to turn him to be a useful citizen is precisely what would put this country as a leader, let us hope, at least in Asia. There has been a hard core among us, when we achieved independent status in 1947, of men of no mean ability and calibre who have seen us through these short years of turmoil and much hard work. We have no doubt achieved a certain stature in the eyes of the world, but do we have sufficient—not to talk of inexhaustible—resources to draw from for the future? It is this thought that should be underlying all our plans for reform in the educational system.

India today is seething with problems: it has been, ever since it took reins to steer its own course of destiny. To the question what shall be the problem we shall tackle most urgently the answers will be legion. Many people may say the most urgent one is the solving of some practical, material thing—raising the standard of living, building houses, providing better health services, old-age care, restricting the enormous growth of population, prohibition—all aimed at physical improvement and security in one form or another. If one ventured to add to these numbers yet another it might be pardonable, for, although the priority to be assigned to any one of these problems may vary from one man to another, the vital nature of each one of them is indisputable. Supposing, therefore, it is suggested that the three great problems we must face are (*a*) the place of religion in our national life, (*b*) the question of our internal politics, and (*c*) our international relations, one should have no quarrel. According to the manner in which we think and feel and believe, as a nation, on these fundamental issues we shall achieve our material improvements. To condition the manner of our thinking, feeling and believing constitute the function of education, and hence the importance of education in our national life. If it is suggested that first we should tackle problems of social and physical amelioration and that education and what it confers on a nation will then be added unto us, it is putting the cart before the horse. Every nation tackles and solves the problems with which it is confronted precisely in accordance with the way its people have been educated.

Arts *vs.* Science

Today, all over the civilised world, the emphasis on particular aspects of education is shifting from arts and the humanities to science and technology. Nevertheless, the importance of the former cannot be belittled, for its role is no less vital today than in the past. An Arts education does not equip a man with this or that aspect of knowledge; instead, it deals with man in the round, with man as he really is with a life to lead and a soul to save. The electrician or the physicist or the chemist is not equipped to answer—based on his knowledge of technology—questions such as affect his daily life—what religious precepts he should pursue, for instance, or what school he should choose for his children or what his political affiliation should be. These are questions on which the arts and the humanities assist one to develop one's thinking. A right-thinking man cannot escape them, or similar questions, as applied to the nation to which he belongs. To that extent, every citizen is or has to be a humanist. The student at the university pursuing his study of art, of truth about great matters, perhaps rather abstractly, is thereby acquiring a true sense of values to enable him to make good or bad decisions in life. Upto a point this type of education on which we have laid so much store is commendable and necessary.

Importance of Leadership

When one speaks of leadership, one means precisely the availability of men fully equipped by education and character to steer the destinies of a nation. If we in India have had some strong and efficient leaders, it may be attributed to some extent to the system of education that we had inherited, but today there is need to evolve something out of it to meet our specific and more urgent requirements. It must, for instance, be realised by our educationalists that the system which we have followed hitherto has its inherent defects when transplanted here from a region in many respects quite alien to our own. Consider, for instance, the difference between the two Democracies of Britain and the U.S.A. Jessica Mitford in her recent hilarious book briefly referring to the many activities of Roosevelt's New Deal—work camps, the Tennessee Valley Authority, drainage and resettlement projects, schemes for financial aid to farmers —tersely commented: "How different from English Government offices where the very words "civil servant" seem synonymous with dry-as-dust dullness and red tape!" It is the latter Government that we ourselves have inherited thanks to the educational system that informs our Civil Service and, until that system undergoes a thorough transformation to suit our new and changing needs, a lot of the ills to which we are heirs will perforce continue. It does not need much elaboration to realise why education should receive priority second to none if India should march ahead. For Britain herself, there is no doubt her own system of education was admirably suitable. She was, for instance, able to rule the waves and a vast area of land over which they claimed the sun never set, for well-nigh three centuries on the strength of the hard core of administrators, financiers, civil servants, and tradesmen who came out of her schools and universities, which, upto a point, served their purpose admirably, until, perhaps, the generation of Jessica Mitford and her ilk came up as iconoclasts.

What is a University?

I never tire of quoting Sir Arthur Quiller-Couch, who half a century ago, in the course of a lecture at Cambridge, told his audience how the two British Universities of Oxford and Cambridge "stand out like two great beacons of light, to attract the young wings of all who would seek learning for their sustenance. Thousands have singed, thousands have burned themselves, no doubt: but what thousands of thousands have caught the sacred fire into their souls as they passed through and passed out, to carry it, to drop it, still as from wings, upon waste places of the world! Think of country vicarages, of Australian or Himalayan outposts, where men have nourished out lives of duty upon the fire of three transient, priceless years. Think of the generations of children to whom their fathers' lives, prosaic enough, could always be re-illumined, if someone let fall the word 'Oxford' or 'Cambridge,' so that they themselves came to surmise an aura about the name as of a land very far off; and then say if the ineffable spell of those two words do not lie somewhere in the conflux of generous youth with its rivalries and clash of minds, ere it disperses, generation after generation, to the duller business of life."

To this may also be added, for the sake of those who tend to forget their history, the great axism propounded by Cardinal Newman: "A university," he says, "is a place of concourse, whither students come from every quarter for every kind of knowledge. It is the place to which a thousand schools make contributions; in which the intellect may safely range and speculate, sure to find its equal in some antagonist activity, and its judge in the tribunal of truth. It is a place where inquiry is pushed forward, and discoveries verified and perfected, and rashness rendered innocuous, and error exposed, by the collision of mind with mind, and knowledge with knowledge. It is a place which wins the admiration of the young by its celebrity, kindles the affections of the middle-aged by its beauty, and revets the fidelity of the old by its associations. It is a seat of wisdom, a light of the world, a minister of the Faith, an *Alma Mater* of the rising generation."

Men from these universities and from the British Public Schools achieved results for Britain in an age when the type of education imparted therein was precisely what equipped her people to be useful, effective citizens. Much of that system however is now undergoing change in order that Britain may equip herself to the changing conditions and circumstances of the present-day world. The emphasis is fast shifting from the humanities, for instance, to science and technology. Against this yardstick —whether based on Britain's pattern or one of our own—we fail miserably in India. The salaries of teachers, to boot, are so inadequte that the best types of men are not attracted to the profession. Separate constituencies for teachers force them into politics in a manner that is not conducive to a healthy state of affairs. And students are drawn into politics at the whims and fancies of teachers who themselves are ill-equipped to lead them. The interference of bodies of students, an eminent educational authority in Calcutta recently pointed out, in political decisions is a serious hindrance to national progress and a flagrant example of indiscipline.

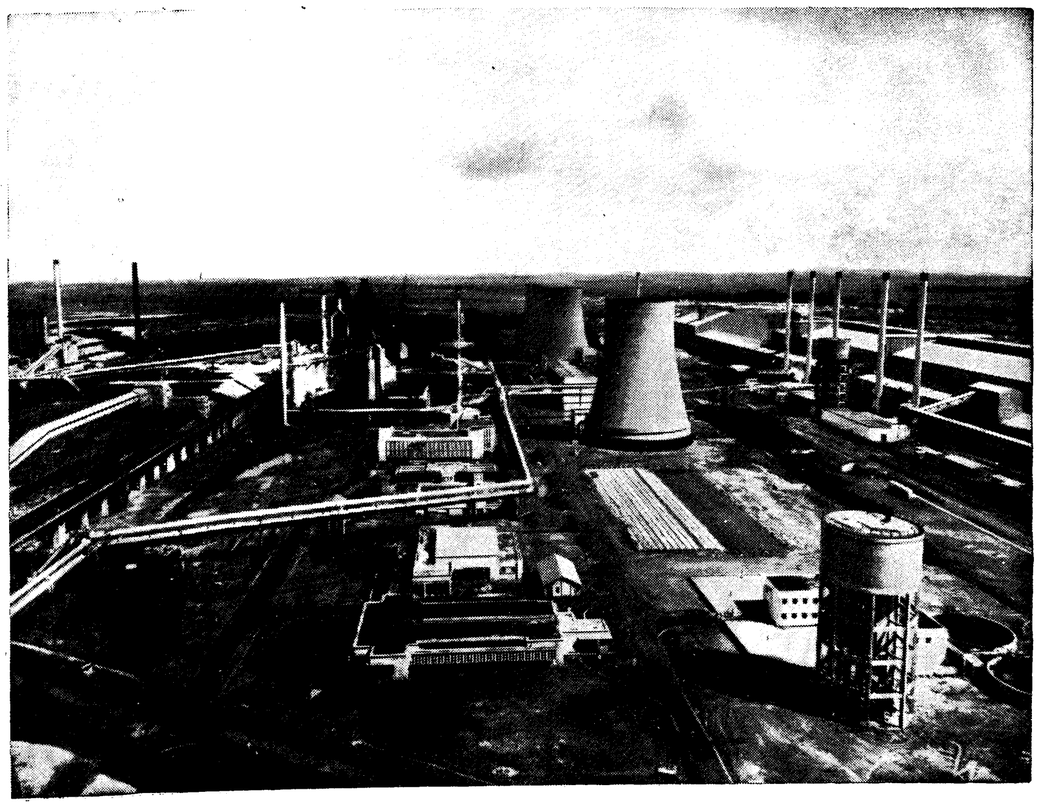
Interference of students in university administration is equally lamentable. After apportioning blame to students who indulge in these unwholesome, extra-curricular activities, the administrative bodies themselves must accept their own share of blame for corruption, inefficiency and often cumbrous wielding and discharge of authority. The falling standards of education, almost at all levels, are another reason why the student body is drawn into misguided activities. A little knowledge is a dangerous thing: Drink deep or taste not the Pyrrhean cup." How many among the thousands who flock evening after evening into the city colleges of Calcutta, for instance, realise that, non-productive members of the community that they are, they owe a responsibility to the State that supports them? In their effort to become—by their training and learning—productive, useful citizens, this obligation that they owe is first and foremost to the authority whose strength in turn is, or will be, theirs; instead, such thoughts in the present set-up seem hardly to enter their minds and like dumb, driven sheep they look up and are not fed and whoever—regardless of his political hue—comes along, with the power to harangue, is able to sway them. One inevitably poses the question: is it necessary that these thousands should seek a university degree in this fashion?

Teachers' Salaries

However, all is not dismal, dark and hopeless in the field of education in India. What is needed is first a raising of standards in the universities and where standards are falling to check further regression. Revision of scales of salaries for teachers in order to attract better men to schools and colleges should be at once implemented. University administrations should be made less cumbersome and, where nefarious practices are detected, they should be ruthlessly weeded out, so that a high standard of integrity is uniformly maintained. Admission of students for university education should be restricted only to the deserving and the glamour for the possession of a degree only for the sake of its possession should be discouraged by diverting most of those seeking

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admission into the universities today to profitable alternative avenues of equipping themselves for the battle of life. Technical institutions—not at university level—are one such avenue.

In a land where the vast majority of the population is illiterate and ignorant, the problem of imparting education to this majority as opposed to higher education at university level, it need hardly be said, is a gigantic one. Some start has however to be made to break the ground. If university education is being, or will be, tackled, the weaning of the masses now wallowing in ignorance and superstition is of equally paramount importance. A start could be made by tackling the large concentrations of labour at the industrial centres: the thousands of men and women constructing the vast dams of which we are justly proud and similar numbers engaged in various other nation-building activities can, through instruction imparted to them at these labour centres, be made aware of the part they are playing in the new India so that they might also have a pride in the achievements. Adult education aimed at these labour forces is something that must start at once: the amount of money that Government at present voluntarily surrenders in pursuit of its prohibition policy could be more advantageously utilised for the introduction of this type of adult, mass education.

Imposing mass morality on a people—which is what prohibition aims at—is far harder, if not impossible of achievement, than imparting mass education. And for what do we so religiously cling to this prohibition policy except to perpetuate a sentiment, namely, that Mahatma Gandhi advocated it and that we must perforce cling to it in honour of his memory? If Mahatma Gandhi were alive today, it is certain he himself would not have harped on this theme as some adherents of the prohibition policy seem to do. How much more practical and infinitely more beneficial it would have been if we spent our energy, resources and influence on the masses of India to enforce discipline on them!!

Employers' Responsibility

There is no denying that a nation's progress can be measured in proportion to the discipline of its masses. Travelling from U.S.A. or Europe in the West to Egypt, the West Asian countries, Pakistan, India, one may notice how the progress of a country can be gauged directly in proportion to the discipline of its people. How can we achieve this discipline as an essential part of our national character? Instilling discipline among the people as a whole should and could be undertaken on a national scale, if only the Government is prepared to face it. It can be made mandatory on every industrial unit in the country, which has to have a licence from the Government for its setting-up and operation, that the labour force it employs should receive outside working hours a special course of training, each day and every day—a training that imparts all aspects of elementary education (including discipline). Each worker then must appear at the end of a stipulated period—lasting over a year or two—for a simple examination not meant to apply the scythe, as in schools and colleges today, but to show he has imbibed some elementary knowledge of the essentials which will enable him, in common with the rest of the community, to enjoy a fuller life. It must be incumbent on the industrial units—whether large or small—to meet the expenses of this system of education themselves without attempting to saddle them on the State. Taking a cue from the inscription on the column that stands in front of Rashtrapati Bhavan in Delhi, one is inclined to paraphrase: educate India's masses and discipline them —And so may India be great!

PRODUCTIVITY IN BANKING

(*Concluded from page 62*)

and energy giving information and explanation about various matters connected with the business of their own constituents. All this, besides entailing heavy operational cost of an unproductive nature to banks, tends to smash the age-long established conventions and relations between a banker and his customer. These peculiar features too need to be constantly kept under examination and review and should be discussed from all angles if Indian banking is to attain the heights which it deserves to attain and which banking in other countries has already attained, so as to help the task of economic growth and development.

Before it is too late, some of these features of Indian banking need to be properly considered and suitable corrective measures should be suggested either officially or unofficially. In the present context, all steps taken for stepping up productivity in Indian banking would help to promote our general all-round economic growth in as short a time as possible. Besides, the very foundations of Indian banking would thereby be strengthened and rendered capable of shouldering greater responsibilities and burdens at all appropriate opportunities in the years to come.



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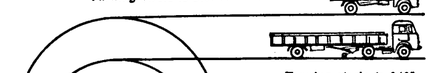
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RAISING AGRICULTURAL PRODUCTION

THE PACKAGE PROGRAMME—AN APPRAISAL

By B. G. RAO, I.C.S. (Retd.)

SOME months ago we were told that the district of Tanjore had begun to work the Package Programme. Recently, the same programme was inaugurated in the district of Pali in Rajasthan; more districts will soon be coming up with this novelty. What is it? And what is it for?

Two years ago, a team of experts sent by the Ford Foundation observed that, at the end of the third Five-year Plan, we will, on the current trends of production, be producing only 82 million tons; they merely emphasised a well-known fact. But we were grateful to them for the observation and we hoped that the Foundation would produce a solution to the problem. Used to the American conditions, temperament and methods, the experts of the Foundation suggested a "ten-point pilot programme to increase food production," more crisply called the Package Programme. And, unhesitatingly, we decided to work this package programme, without considering what its implications are.

But are we able to examine any such scheme objectively? Are our own minds clear on certain fundamentals? For instance, on the part that green manures can play in increasing our food production. Some months ago, the Vice-President of the Indian Council of Agricultural Research—a body which has had extensive experiments carried on in the field of plant nutrients—writing on "India's problems in agricultural production" observed that "Sann and Guara are useful green manure crops for Northern India and *their use should be widely popularised.* Green manuring with these plans means the loss of one crop and *only farmers with substantial holdings can afford it.*" Such contradictory statements are possible, because the Council is torn between the results of its own experiments showing the need for a rapid extension of the green manuring practices, on the one hand, and the increasing pressure, on the other, of foreign experts always well-intentioned and always ready to meet the cost of various programmes which they recommend us to adopt. If this is the case in such expert circles as the Council of Agricultural Research, should we expect the Ministry of Agriculture to be inclined to examine and assess in an objective manner any schemes suggested by foreign experts?

The Purpose

Let us examine the Package Programme realistically as laymen with a commonsense approach? Its objectives are "to demonstrate in pilot districts the most effective ways of expanding food production by co-operative efforts between the Centre, the States, the districts, the blocks, the village and the individuals" and its process is "to combine all factors for the rapid increase of food production into one integrated impact programme" carried over a Five-year period in seven districts (now proposed to be raised to fourteen) selected out of the wheat, rice and millet growing regions. And these factors are credit, fertilisers, pesticides, seeds, implements, price incentives and marketing arrangements; and the goal is "to increase the prosperity of the farmer, and the village as a whole." Haven't we heard much of this before? Of course, we have. What was once boosted as the Community Development Programme seems to be now presented under a new guise. The Community Development Programme, which began with a fanfare, had, as its avowed objective, the increase in the farmer's prosperity by increasing his agricultural production. We are now blaming its failure on the officials and their inabil.ty to reorientate themselves. The main reason for its failure has been its inability to make the farmer self-reliant. We are now presented with another scheme, with the same ultimate object with a limited coverage but with greater emphasis on the "helping hand."

I understand the package part of the programme. We concentrate our admittedly insufficient credit facilities, limited supplies of fertilisers, pesticides, etc., and pamper a selected few with price incentives. But what about the pilot part of it? A pilot programme must be worked in average initial conditions. To select, for instance, the district of Tanjore in Madras or the district of Pali in Rajasthan and to prescribe or evolve an approach suitable to the most favourable conditions already obtaining there is no way for finding out the best means of increasing the food production all over the country. It need not be mentioned that, even in the district chosen, the most promising farmers (who will always be those with adequately large holdings) will be the first to be selected for receiving the benefits of the programme. In the districts to be taken up in the second round not all the initial advantages enjoyed by the pilot would be present, so that neither the experience of the pilot nor its success will be a guide for further progress in this direction. And, let us not forget what we were told when the first community development blocks were selected, the districts should be those "where conditions are favourable for successful operation of a pilot programme."

Nothing New

We have had so many demonstrations, so many pilot projects, so much of 'impact' that it is time that persons in authority tried to find out why they have failed to yield the expected results. In villages by the thousand we find solitary farmers producing outstandingly high yields year after year, and their neighbours still lagging at old levels of production. We have had scores of Krishi Pandits and we find few in their own village attempting to emulate them. And do we hope to induce our average farmer to emulate the example of people living probably a hundred miles away in more favourable circumstances and for whose betterment the Government is finding all the necessary credit, quantities of fertilisers and seed and numerous technicians?

The Real Need

But why is it that the average farmer does not follow the example of his more capable neighbour? Almost without exception the farmer who becomes the Krishi Pandit, the farmer who sets an example as a good producer has a holding which by local standards would be a large holding. That is, his resources are usually of a high order as compared with those of most of his neighbours. And most of the latter in the districts not now selected do not have the resources needed to pull themselves up. They need no greater assistance of an expert staff for farm-planning not more supplies of fertilisers, pesticides, etc., than what their neighbours get, no price-incentives; give them the credit, adequate and in time, and they will do the nation's job. This indeed, does not have to be proved by a pilot programme. And the package scheme does not contemplate this over the entire country for another five years.

While the fourteen districts already blessed by God and man are being thus further blessed with the package programme, what will happen to the other two hundred odd districts? Possibly, the farmers in these districts will realise that the increased financial and technical assistance promised to them and some already given will be diluted if not withdrawn. And, perhaps, they will cease to have faith in the helpfulness of the State in such matters and will, as an alternative, develop greater self-reliance. Perhaps that is how the package programme will ultimately lead to a general increase in the level of production of foodgrains all over the country.

II

As originally contemplated, the pilot package programme had four main features; the assurance of a minimum price to the farmer as an incentive to greater effort in production; the preparation of production plans by individual farmers with the assistance of special staff, the provision of adequate credit facilities and, finally, the combined application of all improved practices.

Price Incentive

How far is the fixation of a minimum price a potent incentive to the farmer to exert himself more than he would do otherwise? The average farmer in our country is by most standards a very small farmer. The National Sample Survey figures tell us that farmers cultivating 10 acres or less acccunt for 36.4 per cent. of the total cultivated area, those cultivating between 10 acres and 15 acres each 12.6 per cent. and those cultivating between 15 acres and 25 acres 17.73 per cent. Thus, farms below 25 acres account for 66.7 per cent. of our cultivated area. The size of the small farmer's income from the marketing of his surplus grain is limited by economic factors even in years of high prices—his requirement of funds to pay land revenue, to pay for his recurrent social obligations, to pay interest on his debts and to pay off his debts. The net money surplus which he gets out of the marketable surplus of his produce is, indeed, so small that, if he is moved by any incentive, it is the incentive offered by a cash crop in a year of high ruling price as against a food crop. In any case, no Government which recognises that the prevention of any further rise in the foodgrain price levels is essential to keep the country out of runaway inflation can afford to fix minimum foodgrain prices at a point significantly higher than the current level; and to be a real incentive to any farmer, the fixation has to be at a substantially higher level than the present one. It is for this reason among many others that the Government of India has not found it advisable to assure the farmer of a minimum price for his produce.

There are other complications, too, in this part of the package. For instance, it may raise not merely administrative but political and constitutional problems to announce a guarantee of a minimum price to farmers who would be the recipients of the various benefits of this programme while withholding it from others placed in less favourable circumstances. And it will be necessary to maintain some procurement staff in all districts, surplus or deficit, when the pilot is extended to the entire country. Recent pronouncements and Press releases indicate that the Government of India is, perhaps, becoming a little more realistic and appears to be emphasising less on price incentive. But, with the even more recently reported fall in rice prices, the question may be raised once again.

Cheap Credit

The supply of cheap credit to the farmer is naturally a vital point in any scheme for pushing up the country's agricultural production. So is it in this one. It is proposed that the service co-operative will be the only machinery for obtaining this credit in the pilot areas. The inference is inevitable that, in the pilot areas, farmers who used to obtain the necessary credit or a part of it through *taccavi* loan system will now be compelled to join the co-operative. The compulsive element thus introduced into the voluntary co-operative system appears to have been ignored by the Ministry possibly because "co-operation" is not within its portfolio. One can only hope that such compulsion as this is not an earnest of the measure of the voluntariness which we have been assured in the matter of co-operative farming.

A more important aspect of this part of the package is the size of the co-operative. The scheme envisages that it will look after all the needs of the farmer from supplying farming implements and seeds right up to marketing his surplus produce. The draft third Plan has already decided that each co-operative will be confined to one village. Inevitably, therefore, the co-operative will be dependent upon the Government for the pay of its staff, its finances and its working—it will really be a part of the Government machinery. How far this will make the farmer self-reliant and develop his initiative is worth pondering. It is not realised how much less self-reliant than ever the small farmer has become since the spread of the Community Development blocks.

Fertilisers

In the combined application of improved methods, none of our age-old practices such as green manuring finds a place; and rightly, too. Green manuring is not an "improved" method—it was for centuries known to our farmers in many parts of the country and was further widely popularised by a Director of Agriculture in at least two of our southern States well before the Ford Foundation began to advise our Ministry of Agriculture. The pilot programme has, therefore, no interest in such antiquated practices and attaches greater importance to chemical fertilisers. If we are to step up our food production to the desired level we certainly need these in large quantities. But they need to be applied as a supplementary to

(*Continued on page 78*)

Economic Position Of The Average Indian Today

The Millennium Promised Is As Distant As Ever

By Dr. N. DAS, I.C.S. (Retd.)

THE opening paragraph of the Draft Outline of the Third Five-year Plan reiterates what has been stated over and over again during the past ten years, namely, that the objective of planned development is not only to increase production, but to attain higher levels of living and to secure a social and economic order in which "justice shall inform all the institutions of the national life." Amplifying the point further, the Draft Outline says:

"In December 1954 Parliament declared that the broad objective of economic policy should be to achieve the socialist pattern of society. Accordingly, the basic criterion in determining social policies and the lines of economic advance should be, not private profit or the interests of a few, but the good of the community as a whole. The existing social and economic institutions have, therefore, to be judged in relation to their role in national development. To the extent they do not fulfil the social purposes in view, they have to be transformed or replaced."

In all fairness to Government, it must be said that it has been trying its level best to "reconstruct or replace" the various social and economic institutions with a view to bringing about the much-advertised socialist pattern of society, but the average man should not be considered too presumptuous if he asks that he would like to see some tangible evidence of the promised higher level of living, greater employment and lesser inequalities of wealth and income. As a representative average Indian, I would like to state that the promised millennium is as distant as ever. And I shall quote official and semi-official facts and figures in support of my statement.

Let me start with the national income and *per capita* income, as it is conventional to measure growth in terms of these two sets of figures. On paper, the increase has been not unimpressive. As a matter of fact, only a few weeks ago, the Prime Minister of India claimed that our national income had increased by 42 per cent. during the first two Plan periods. On the face of it, this looks wonderful, but a little circumspection would show this 42 per cent. amounts to only 4.2 per cent. of *annual* increase of national income. Even without any planning, the U.S.A. is said to have a 4 per cent. increase in national income every year and the U.S.S.R., with planning, 10 per cent. But, according to figures published by the Reserve Bank of India, the value of the rupee has declined by 30 per cent. during the past ten years. So, the increase in *real* national income is very much less than 4.2 per cent. per annum.

National income is, however, an overall estimate. A much more practical tool of measurement would be the figures of *per capita* income. Here also the Prime Minister claimed that *per capita* income had risen by 20 per cent. during the past ten years. But this increase should be viewed against the rise in prices and the higher population growth between 1954 and 1959. (Table I.)

It will be seen that, both at 1952-53 and 1948-49 prices, the *per capita* income has remained more or less stationary during the past four years. This has, of course, been due to the very high rate of population increase—a rate which had not been visualised at the time the second Five-year Plan was drafted. Whatever the cause, the stark fact remains that there has been no increase in the real *per capita* income even as a result of the massive expenditure which was undertaken during the second Plan period.

Even the figure of *per capita* income can be misleading. As has been aptly pointed out by Mr. H. V. R. Iengar in his inaugural address at the Second Indian Conference on Research in National Income (31st August, 1960), "it is conceivable that, while the *per capita* income is going up, the standard of living of large sectors of the population might be stationary or might even be going down. In fact, one of the criticisms sometimes made of our economic programme is precisely this, that the figures showing a rise in *per capita* income disguise the fact of economic stagnation for the bulk of our rural population."

We have, however, no statistics which would give an adequate picture of the distribution of national income among different sections of the population. Even the figures of consumption which, incidentally, are a more reliable indicator of progress than figures of *per capita* income, are averaged out *per capita*, with the result that they, too, do not indicate the real patterns of consumption.

The pattern of *per capita* consumer expenditure over the last ten years, as given in the following table, is even more unflattering.

TABLE I

Per capita *National Income*

(In rupees)

Year	At 1952-53 prices	At 1948-49 prices
1950	259.6	248.4
1951	263.6	252.1
1952	267.5	257.7
1953	281.0	268.6
1954	281.9	271.1
1955	283.2	271.8
1956	292.3	280.6
1957	283.6	275.4
1958	299.1	287.7
1959	295.2	284.0

Note :—For 1954 to 1959, the *per capita* income has been revised on an estimated population growth at the rate of 1.6 per cent. to 1.8 per cent. The basic figures have been obtained from data published by the Planning Commission.

TABLE II

Per capita *Consumer Expenditure*

(In rupees)

Year	At current prices	At 1952-53 prices	At 1948-49 prices
1950	254.1	246.9	236.1
1951	262.2	250.4	239.5
1952	254.1	254.1	244.9
1953	266.6	266.6	255.2
1954	240.8	265.2	254.1
1955	245.9	262.5	251.8
1956	274.1	269.3	258.4
1957	271.3	259.5	249.5
1958	291.5	261.9	252.2
1959	263.5	257.7	247.4

Note :—For 1954 to 1959, the *per capita* consumption expenditure has been calculated on an estimated population growth at the rate of 1.6 per cent. to 1.8 per cent. between 1954 and 1959.

It will be argued that the growing diversion of resources from income to savings (or investments) is responsible for the state of affairs, but, after ten years of planning, the ordinary man wants to see a substantial rise in his standard of living and not a fall.

What is the position in regard to the *per capita* consumption of the various daily necessaries of life? Table III gives the figures in respect of (i) cereals, (ii) cloth, (iii) sugar, (iv) *gur*, (v) tea and (vi) vanaspati, over the past six years.

It will be seen that consumption of cereals actually went down till 1958 and increased only slightly (less than 4 per cent.) in 1959. The increase in consumption of cloth has also been marginal over the last five years. As regards sugar and *gur*, whether the two are taken together or separately, there has hardly been any improvement. Only tea and vanaspati show some rise, but it should not be forgotten that vanaspati has largely displaced ghee, the production of which has gone down considerably.

A survey prepared recently by the F.A.O. giving the *per capita* net supply of essential consumer articles also presents more or less the same picture. (Table IV.)

TABLE III

Trends in per capita *Consumption of Certain Essential Commodities*

Year	Cereals (lbs.)	Cloth (yds.)	Sugar (lbs.)	*Gur* (lbs.)	Tea (ozs.)	Vanaspati (lbs.)
1954	305.9	15.2	10.9	17.9	7.09	1.33
1955	289.0	16.1	10.0	16.0	9.25	1.58
1956	282.5	16.6	11.4	16.9	7.96	1.47
1957	301.2	16.5	11.5	16.9	8.00	1.71
1958	271.2	16.7	11.9	17.6	9.49	1.65
1959	316.2	16.4	10.5	18.8	10.90	1.77

Note : (a) Data for "sugar and *gur*" have been obtained from the *Sugar Annual*, edited by Mr. M. P. Gandhi.
(b) Data for "tea" have been collected from various *Tea Bulletins* issued by the Tea Board.
(c) Data for "cloth" have been taken from the Textile Commissioner's *Bulletins*.

TABLE IV

Per capita *Net Supply of Essential Consumer Articles*

(In lbs.)

Period	Cereals	Sugar	Potatoes and other starchy roots	Pulses and nuts	Milk	
					Fat	Protein
Pre-war	306.44	28.66	17.64	48.50	6.61	4.41
1949-50	246.92	26.46	17.64	50.68	4.41	4.41
1951-53	266.76	24.25	24.25	52.91	4.41	4.41
1954-56	286.60	28.66	24.25	63.93	4.41	4.41
1957-58	273.37	30.86	24.25	57.32	6.61	4.41

Source : *Statistical Year Book*, F.A.O.

TABLE VI

Income-Expenditure of Agricultural Labour and Cultivators of Land

	1950-51 (In Rs.)	1956-57 (In Rs.)	Percentage increase (+) or decrease (—)
A. *Daily wages*—			
1. Male labour	1.09	0.96	—13.5
2. Female labour	0.68	0.59	—15.2
3. Child labour	0.70	0.53	—32.0
B. *Income of families*	447.00	437.00	— 2.2
C. *Consumption expenditure*	461.00	618.00	+34.0
Budgetary deficit	14.00	181.00	..
D. *Proportion of indebtedness among families* ..	45%	64%	..
E. *Average debt per household*	47.00	88.00	+87.2

Source : *National Sample Survey, C.S.O.*
Note :—These figures cover landless labour, and cultivators not owning land, which together comprised 76 million in 1951 or 19.8 per cent. of the total population.

TABLE VII

Income and Expenditure of Middle Class Families in 1958-59

Monthly income group (In Rs.)	No. of families	Percentage distribution	Average monthly expenditure (In Rs.)	Remarks
1. Below Rs. 60	72	3.02	75.87	Deficit.
2. Rs. 60–99.99	371	15.53	127.00	,,
3. Rs. 100–149.99 ..	558	23.37	178.87	,,
4. Rs. 150–199.99 ..	434	18.17	238.77	,,
5. Rs. 200–299.99 ..	473	19.81	297.32	Small surplus.
6. Rs. 300–499.99 ..	300	12.56	434.62	Surplus.
7. Rs. 500–749.99 ..	115	4.82	617.31	,,
8. Rs. 750 and above ..	65	2.72	1,078.49	,,
Total ..	2,388	100.00	280.19	....

Source : *The Middle Class Family Living Survey*, 1958-59, *C.S.O.* (Preliminary results).

TABLE V

Index of Money and Real Earnings of Factory Workers

(Base : 1947=100)

Year	Money earnings of factory workers	Real earnings of factory workers
1948	120.0	107.4
1949	134.4	116.9
1950	132.0	114.0
1951	140.9	116.6
1952	150.9	127.6
1953	151.8	124.7
1954	151.8	131.1
1955	159.4	144.9
1956	162.6	134.5
1957	170.2	133.3

Source : *Indian Labour Statistics*, 1960.

But, it will be urged, have not the factory workers had a better deal? Yes, they are the only sector of the population who appear to have improved their lot, but, even in their case, the improvement in terms of real earnings, is not so spectacular. Moreover, there has been no real improvement since 1954. And it should not be forgotten that these workers constitute only 0.66 per cent. of the population. (See Table V.)

On the other hand, what has been the lot of (*a*) agricultural labour and cultivators of land, and (*b*) members of the middle class? The tables VI, VII and VIII tell their own story.

TABLE VIII

Index of Real Earnings of Salaried Employees in India

(1939=100)

1948	82
1949	95
1950	94
1951	94
1952	99
1953	96
1954	101
1955	106
1956	97
1957	95
1958	94

Source : *Statistical Supplement to the Second Pay Commission Report*, 1959.

Let us now have a look at the general state of employment and unemployment in the country. Here again, the situation is most disheartening. Despite all the investments that have been, and are being, made by Government, the Third Five-year Plan will make its debut with a backlog of 7.3 million unemployed. At the beginning of the Second Plan, the backlog of unemployed was of the order of 5.3 million only.

The blame would, perhaps, be laid, again, at the door of the mounting pressure of population, but the plain truth is that, despite all its talk about the need for increasing employment opportunities, Government has no *positive* 'employment' policy. It has got a policy to inject more of the public sector into the economy; it has got a policy to impose more taxes and raise more revenue; it has even got a policy, albeit clumsy, to reduce inequalities of wealth and power, but, when it comes to equating manpower with employment, it indulges in vague and empty platitudes. It forgets that socialism in the sense of equalisation of wealth and income can wait, but eradication of hunger and unemployment cannot.*

Even in the matter of equalisation of wealth and income, is the trend really one of equalisation?

Unfortunately, we do not have any up-to-date official figures, but a comparative study made by the Reserve Bank of India of individuals paying income-tax during 1950-51, 1955-56 and 1956-57 shows that the so-called broadening of the income has been very insignificant indeed.

TABLE IX

Percentage Distribution (of Income before Tax) of Individuals

Rs.	1950–51	1955–56	1956–57
Below 10,000 ..	42.97	38.91	38.33
10,000–25,000 ..	24.34	29.10	30.39
25,001–50,000 ..	12.91	14.53	14.76
50,001–1,00,000 ..	8.24	7.89	7.90
Above 1,00,000 ..	11.54	9.57	8.62
Total ..	100.00	100.00	100.00

Source : *Reserve Bank of India Bulletin* April, 1958.

And, if one takes into account the incomes which have not been disclosed to the income-tax authorities (these have accrued mainly to the higher income groups), one may wonder whether we are at all moving towards a socialist pattern of society! Of course, if one equates the socialist pattern with greater extension of the State sector, we are certainly on the right path. But is this the type of socialism which was proclaimed at Avadi and has been reiterated at every session of the Indian National Congress ever since?†

Confined within its own glass-house, Government appears to have lost touch with the actualities of the economic situation. For example, it has shut its eyes to the fantastic growth, in recent years, of what Dr. B. V. Krishna Murti has termed the "U-sector" in the Indian economy. "India is certainly flush with money. Never have there been so many riches flaunted by certain people—but it is confined to only a few at the top." The immense expenditure on the pivotal sector of housing and further expenditure on complementary durable goods by the higher income groups point to an accentuation of inequalities rather than a diminution of it.

The most disturbing trend in the context of planning in India today is that not merely *per capita* expenditure is falling, but *per capita* income is also more or less stationary. I do not deny that India has made tremendous progress in economic development since 1947, but my contention is that the average man has not yet felt the impact of this improvement in his daily life. The time has, therefore, come for Government to give up some of its pet ideologies and get down to (*a*) need-oriented production and (*b*) spreading the gains of economic development among the masses in as short a time as possible. It is no use asking the common man to tighten his belt, when unemployment and poverty are definitely on the increase. The present gross disparities in the incomes of the U-sector, on the one hand, and the agricultural and white-collar workers on the other, must be narrowed down and the price line must be held at the level of the basic necessaries of life (food and clothing). Government should review its position, rid itself of the delusion that has been created by the catchword "socialist pattern of society," and tackle the problems of unemployment and poverty in a much more forthright manner than it has done so far.

*For a further exposition, the reader is referred to the writer's "*Unemployment, Full Employment and India*" (Third Revised Edition), just published by the Asia Publishing House, Bombay.

†Attention is invited to the writer's forthcoming work in the Press, "*The Public Sector in India*," to be published by the Asia Publishing House, Bombay.

AGRICULTURAL WAGES

About 81 per cent. of the average income of agricultural labour households was derived from wage-employment in agricultural operations as well as from non-agricultural occupations during 1956-57, as against 76 per cent. during 1950-51, according to the Second Agricultural Labour Enquiry conducted by the Union Ministry of Labour. About 48.7 per cent. of the man-days worked were paid for in cash in 1956-57, as against 56 per cent. in 1950-51. Payments made entirely in kind accounted for 40.5 per cent. in 1956-57, as compared with 31.3 per cent. in 1950-51. Wage payments made partly in cash and partly in kind related to 9.8 per cent. of the total man-days worked in the First Enquiry and formed 10.8 per cent. in the Second Enquiry. The average daily wage rate of adult male workers decreased from 103 nP in 1950-51 to 96 nP in 1956-57, and the average daily wage rate of adult women also fell from 68 nP in 1950-51 to 59 nP in 1956-57. Child labour received an average wage of 70 nP in 1950-51 and 53 nP in 1956-57. The estimated wage bill in agriculture worked out to roughly Rs. 520 crores in 1956-57, as against Rs. 500 crores in 1950-51.

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REDUCING INEQUALITY OF INCOMES

Need For A Practical Approach

By K. RANGACHARI

AT the beginning of this century, the Italian economist Vilfredo Pareto discovered that there was a general pattern of inequality in the distribution of incomes in many countries, in which the highest five per cent. of income receivers earned about one-third of the total national income. On this basis, he proceeded to argue that it was inevitable that it should be so (a point which most socialists now reject as untenable) and that the hope for the redress of such inequality lay in a steady increase in the national income, larger shares of which can pass to those in the lower groups. Though Pareto's laws on the measurement of inequality are not generally accepted, his main conclusion seems to be corroborated by the trends in the advanced industrial democracies.

It is only natural that, in a democracy where large numbers of the population are at or below the subsistence level, there should be widespread interest in current trends in economic development and in knowing whether the benefits of progress are being spread equitably. The appointment of a special committee to inquire into this question need not, perhaps, have been deferred by the Planning Commission until criticisms increased, creating the impression that it was only an excess of socialist fervour which has caused the inquiry and that its result may be the further crippling of incentives for growth in the private sector. Already most modern tax systems aim at redressing the inequalities which the normal functioning of a free economy creates; in India, the terms of reference of the Taxation Enquiry Commission in 1953 included this aspect also, though the Commission, for lack of data, made no more than passing references to the problem.

The Indian Constitution lays down, as a Directive Principle, that the operation of the economic system should not result in the concentration of wealth and means of production to the common detriment. This by itself would justify a periodical investigation, so that the State can make sure that its policies are not contravening the spirit of this principle. In spite of it, however, the first Five-year Plan (drawn up prior to the formal adoption of the socialist pattern of society) did not lay much stress on the reduction of inequalities. At that stage, it was felt there was need "for balancing the advantages of a greater equality of incomes and wealth against the disadvantage of a possible fall in private savings and capital formation"; there was reliance on controls on prices and profits for supplementing the redistributive effect of income-tax and death duties.

After the socialist pattern became the declared goal, ideas on the subject appear to have crystallised and the second Plan laid stress on raising the levels of incomes at the lowest levels along with the reduction of those at the top. The following lines sum up the views then held and should hold good even now:

"There are no historical parallels or plans of action which could be regarded as providing an answer to this special problem facing underdeveloped countries. The problem will have to be faced pragmatically, and it will call forth a great deal of flexibility and experimentation in the matter of techniques. It is important to ensure that, in reducing inequalities, no damage occurs to the productive system as would jeopardise the task of development itself or imperil the very processes of democratic change which it is the objective of policy to strengthen. On the other hand, regard for democratic and orderly change cannot be allowed to become a sanction for existing or new inequities."

The totality of measures which the second Plan envisaged included the shaping of the pattern of investment, direction of economic activity, impact of fiscal policy, social services, changes in land ownership, reform of company management, State-sponsored growth of the co-operative sector. Together with a study of the changes in the pattern of consumption, these may provide fruitful lines of inquiry for the Mahalanobis Committee. Fiscal changes suggested in the second Plan—the levy of expenditure, wealth and gift taxes—have been implemented; though ceiling on incomes continues to be talked about, the Plan had ruled it out, considering that it was more appropriate to think of a floor; and, in this context, the question of regional disparities was also raised as a relevant issue.

Mahalanobis Committee

The Mahalanobis Committee has to cull basic data concerning these aspects from existing statistical and other sources to lay the foundation for its present inquiry. Yet its statistical approach will not be meaningful or complete without an understanding of the background in which the whole problem will have to be seen and discussed to influence public policy. There is always the risk of distorting the issues by providing grist to the mills of overzealous politicians; it is futile to expect that there will be agreement, much less unanimity, on the permissible levels of inequality in a poor country because of its development problems. But, since the assault against disparities comes from socialist quarters, it may be instructive to keep in mind the limits to which socialist countries have been willing to go.

Though the Soviet Union abolished the ownership of property in the means of production, exceptions were gradually made in favour of technicians, industrial workers and farmers which, according to Prof. Rostow, eventually ended in Soviet pattern of real incomes approximating to that in capitalist countries by 1930; the ceiling on incomes for party members and special educational and other facilities for children of the workers remained the only recognisable measures of equality, while the intelligentsia grew into a middle class distinguishable by the money incomes and other privileges it enjoyed as compared with the peasants and workers. The Soviet income-tax, with a flat rate of 13 per cent. on incomes above a thousand roubles and the inheritance tax (the maximum rate of which was reduced in 1943 from 90 per cent. to 10 per cent) provided significant concessions for maintaining incentives for work and earning rewards.

Saving Function

These considerations should help to avoid a dogmatic approach to the issues involved in the reduction of inequality in this country. Those who think that the State should not divert attention to such questions at this stage believe that a more equal redistribution, even if possible, will divert income from the hands of those who can save and invest to those who will immediately spend it on consumer goods, diminishing the pool of savings and creating demand far in excess of the means of supplying these goods. Where, however, a substantial part of the saving function is performed by the Government, the argument loses some of its validity; the question then becomes one of leaving enough with the private sector for its allotted tasks and of maintaining incentives in the economy as a whole.

Egalitarians urge, on the other hand, that redistributing the purchasing power of the community will itself act as a stimulant to growth, as it widens the market for industrial goods; this, however, has greater force in relation to the advanced countries where the improvement of living standards through redistribution results in creating a steadily rising demand for durable consumer goods and helps to sustain economic activity. In India, the supply of consumer goods has fallen behind the rising demand in recent years and there are organisational limitations to the public sector's attempts to offset by its own savings any shortfall in private saving. At the same time, our planners have recognised that rising expectations have to be fulfilled to some extent and have assumed a marginal rate of saving of only 20 per cent.; reduction of inequality cannot go further to reduce this low ratio.

The third issue referred to the Mahalanobis Committee relates to the extent of concentration of the means of production as a result of the operation of the economic system. Here ideology may find better scope than considerations of economic efficiency. The trend towards concentration, as distinguished from monopoly, is one of the concomitants of modern industrial growth through joint-stock enterprise and the practice of internal financing of expansion with retained profits. Except where it leads to restrictive or monopolistic practices there is normally no case for curbing the tendency and like the equally undesirable concentration of economic power in a bureaucracy resulting from the growing public sector, it may have to be tolerated as at worst a necessary evil. But it must also be remembered that recent company legislation which restricted the number of companies controlled by existing managements has even encouraged concentration, much of the increase in the paid-up capital being due to the internal reserves of existing companies.

The major source of our information about recent trends in the distribution of income is income-tax statistics. Their limitations are known; not only do they cover only a small minority of the population, but they also exclude many business and professional incomes which now evade tax at the lower and the middle levels; it is also recognised that high marginal rates of direct taxation have made evasion profitable at the top levels which are of immediate importance in determining trends towards inequality.

The table (I) below shows the trends in the income distribution in important years in the last two decades. The position in 1940-41 is compared with that in two of the war years, two of the immediate post-war years (before the two Plans) and two recent years in the second Plan period. The figures are of pre-tax income. At the lower levels, where the changes in direct taxation are not significant, except for the lowering of the exemption limit recently, it is seen that the number of assessees with an annual income below Rs. 10,000 has just doubled, while their total income assessed has increased by a little more than three times. At the top, those with incomes of Rs. 2 lakhs and above have increased five-fold and their incomes six-fold. This picture is, however, confused by the inclusion of company incomes.

The other table (II) containing figures for individual incomes before and after taxation is more relevant for judging issues of public policy.

Individual incomes have suffered heavily in the higher brackets, though some foreign observers think that post-tax incomes are not as low as those in the U.K. for example. How far tax evasion conceals the true position is another matter on which the Mahalanobis Committee is entitled to speculate as Kaldor the Central Board of Revenue and the Tyagi Committee have done. The point that emerges is that, while there is a case for strengthening the administration of taxes, the rates and methods of assessments are progressive enough.

TABLE I

Trends in the Distribution of Income showing Number of Assessees and Income Assessed

(In lakhs of rupees)

	1940-41		1943-44		1946-47		1948-49		1951-52		1957-58		1958-59	
	No.	Income	No.	Income	No.	Income	No.	Income	No.	Income	No.	Income	No.	Income
0 — 5,000	260.293	57.71	249.218	68.18	268.141	78.98	263.313	82.27	283.600	103.48				
5,001 — 10,000	61.364	35.74	74.531	51.74	100.990	71.25	113.634	80.43	226.822	156.96	464.027	271.57	610.737	337.93
10,001 — 25,000	32.336	39.42	47.155	71.91	57.479	86.24	66.816	98.66	101.856	149.98	151.569	225.83	196.186	287.55
25,001 — 50,000	6.734	17.97	12.462	42.20	13.875	46.98	16.083	54.67	22.865	77.44	36.658	126.97	40.211	139.63
50,001 — 100,000	1.679	9.96	3.417	23.42	4.024	27.80	5.643	38.60	7.494	50.80	14.285	96.31	15.867	107.30
100,001 — 200,000	602	7.78	1.122	16.55	1.533	21.26	2.133	29.45	2.614	35.14	4.183	56.41	4.443	59.84
Over 2 — 200,000	525	46.34	1,169	133.17	1,452	150,944	1,957	187.27	2,123	208.06	2,656	233.43	2,693	281.65

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It is in respect of wealth that the tax system may be regarded as ineffective in reducing inequality. Land revenue has just doubled in the last decade, but even so it takes away only a small proportion of the benefits accruing from appreciation in agricultural prices and land values due to development. Estate duties have yielded only a meagre revenue and the new wealth tax, after the recent exclusion of companies, may not prove a powerful weapon of moderating extremes of wealth; the expenditure tax has not added to revenue but this was not wholly unexpected.

So long as the Government's share of national income remains as low as 8 per cent., neither taxation nor public expenditure can achieve much more than this. Even future expansion of Government revenue is visualised only through indirect taxes like excises and sales tax which are not progressive except when they fall heavily on luxury articles; indeed, they are often regressive. Ultimately, therefore public expenditure will have the dominant role in diminishing inequality.

Without adequate data at its disposal, the Taxation Enquiry Commission came to the conclusion that "increase in inequality in parts of the economy and in certain ranges of income has occurred, despite a considerable steepening of the progression in income-tax" and attributed this largely to the larger incomes at the highest levels after taxation have increased.

An independent survey by the Indian Institute of Public Opinion on the basis of a smaller sample supports the view that disparities in the standards of living in the rural sector have increased while those in the urban have diminished. This is also plausible, because of the relatively lighter burden of taxation in the rural sector and the increase in the real income of the landed classes. The Government's attempt to exact contributions for Plan resources from this sector has taken the form of indirect taxation which operates in a regressive manner. But income-tax statistics alone cannot be relied upon to prove that the urban sector has corrected a similar trend.

Regional Disparities

Finally, there is the question of regional disparities. The Taxation Enquiry Commission took an optimistic view of the role of Central expenditure made directly and through sharing revenues with the States on a population basis. Grants-in-aid to backward areas has helped significantly to ameliorate living conditions. Within each State, collection of a major part of the revenue from cities and expenditure outside the urban area was considered by the Commission to be part of the distributive process. These are matters on which there are bound to be differences of opinion, especially when the Centre's development outlay is concentrated in some areas and trends in real income in the rural and urban areas have undergone a change. It is now realised that projects for housing, slum clearance, water-supply and health have been neglected and that increasing urbanisation under industrial development will call for further measures in urban development.

So long as large sections of the population remain at the poverty line and the average post-tax income remains even at the present level at the top brackets, the range of inequality will appear conspicuously wide. The problem will have to be kept constantly in view and a balanced approach, as indicated in the Draft Outline of the Third Plan, is the best way of tackling it. This article may, therefore, be appropriately ended with the relevant quotation from the Draft Outline:

> "In the short run, there may sometimes be a conflict between the economic and social objectives of developmental planning. The claims of economic and social equality and those of increased employment may have to be reconciled with the requirements of production. ... What constitutes a balance will vary according to the needs and circumstances of the economy but, given the acceptance on the part of the community of the essential values or ends to be pursued, the processes of democracy and freedom of choice should be capable of throwing up the optimum to be aimed at in a given context."

TABLE II

Individual Incomes over Rs. 1 Lakh Before and After Tax

(In lakhs of rupees)

Year	Rs. 1 lakh—Rs. 2 lakhs			Over Rs. 2 lakhs		
	No.	Assessed income	After tax	No.	Assessed income	After tax
1940-41	286	3,32	2,40	120	4,66	2,95
1943-44	540	7,30	5,18	234	9,89	5,92
1946-47	830	11,29	7,32	377	15,58	7,78
1948-49	1,204	16,42	9,07	590	24,58	10,26
1951-52	1,417	18,84	7,76	591	25,56	6,72
1957-58	1,663	22,24	9,41	621	23,87	7,10
1958-59	1,728	22,88	9,58	527	21,82	6,20

business and trading incomes generated by inflation and the erosion of the real incomes of the agricultural labourer and the urban middle class and fixed income groups.

Causes

It is generally assumed that the continuous rise in prices and deficit financing of Plan outlay have accentuated inequalities inevitable in any economy in its developing phase. Protected markets due to import cuts, food shortage and increasing incomes have widened profit-margins, especially in the trading sector and the speculative activity financed by funds remaining outside the banking system have confirmed suspicions of growing inequality and also of evasion. There are also contrary trends; the prosperity of the agricultural sector is more widely spread, even though the large landholder and the grower of commercial crops may derive the major share of the benefit.

An alternative approach to the inquiry into inequality may be through a study of consumption patterns. Industrial production has increased by 60 per cent. and consumer demand has been slowly diversified as shown by the keen demand for new types of manufactured goods. Sample surveys of consumption which, incidentally, also measure the corresponding incomes on which spending is based, have corroborated the conclusions drawn from general observation. The fourth and eleventh rounds of the National Sample Survey provide data for two different dates in the Plan period. It would be rash to draw any firm conclusions, but they seem to indicate that the net

RAISING AGRICULTURAL PRODUCTION

(*Concluded from page 73*)

the cheap and locally available organic manures of which, increasingly, our source has to be green manure and compost. The package which lacks in these, obviously needs to be done up afresh.

More Staff

Like all new programmes, this one begins with a demand for more staff; more staff at all levels. The Community Development Programme gave the villager new helpers—the village level worker, the extension officers, the social education officer and the block development officer and above them a series of layers of officers in the States and at the centre culminating in a Minister. After seven years and more of extension work in the villages, an extension wing was added to the Ministry of Agriculture as advised by the Ford Foundation. The package programme is no less prolific in new posts: extension has to be more intensive; and, therefore, it promises in each development block ten more village level workers, four more agricultural extension officers, a couple of co-operation extension officers and, of course, more jeeps to ensure mobility. To see that this staff does its work properly, the pilot scheme proposes more staff at the district level, the State level and at Delhi, the whole host being guided by ten American experts. As with community development, will this also end with a separate Ministry for Food Production which will co-ordinate the work done by the Ministries now responsible for Agriculture Food, Fertiliser Production, Agricultural Education, Sewage Disposal, Irrigation, Co-operation and Community Development? The recent creation of the post of Special Secretary for Food Production is, perhaps, a pointer to this. If this scheme is really intended to be a pilot, does the Government intend similarly to multiply the existing staff in other blocks and districts, when the pilot projects have completed their five-year terms? And, proportionately, the supervisory and co-ordinating staff, too?

What Result and at What Cost?

Does the Government of India genuinely believe that the employment of such a large additional staff possible, necessary and desirable? What does the sponsoring Ministry expect from this massive effort? Originally, it was said that, as against the initial production of 27.96 lakh tons in six of these selected districts, it is expected that the total additional production in the five-year period would be 26.89 lakh tons. It is now explained that the expectation is that, in the five-year period, the annual yield will go up by between 40 per cent. and 60 per cent. One feels a little puzzled by this. Such a wide margin as 20 per cent. in the expected increase makes one suspect that these expectations are based more upon wishful thinking than upon reasoned calculation. Let us, however, take the mean figure of 50 per cent. This is expected to be achieved after spending about Rs. 1½ crores per district over and above what would be spent in a non-project district. Now, the third Plan aims at an overall increase in the annual production of between 30 per cent. and 40 per cent. Many of the districts will account for a much smaller increase than this average and, therefore, many others are certainly being expected to show a much higher increase, say, 50 per cent. or even 60 per cent. That being so, what is the special contribution which the package programme will make to our food production programme? If the package programme is to register an increase of 50 per cent. in fourteen of the best districts and some other districts are already expected to show equally good or better results without it, then why the package programme? And what is its "pilot" nature. An intensive programme which yields no better results than an ordinary programme is certainly a luxury. The Ministry of Agriculture, already confused, has begun to disown the pilot nature, but says that the programme will demonstrate what can be done by intensive effort; which after all is another way of describing a "pilot." That, perhaps, is why the Draft Third Plan Outline calls it an intensive programme and not a pilot programme.

Parliament Must Study

Parliament is apt to be indulgent towards any scheme which promises to raise the country's food production. For this reason it does not, so far, seem to have taken serious notice of this pilot package programme. If it does, it may first ask whether the proposal to concentrate our efforts in seven or even in fourteen districts and the consequent comparative neglect of the rest of the country has not come a little late in the day, especially as we are told that we have to wait for another five years before extending it to other areas. It may wonder if it is right and proper that pilot project should be located in the districts most favourably situated. It may ponder the suggestion for creating more posts in the blocks, the districts, the State capitals and at the centre and decide whether that is the way to attempt a solution of the problem of our foodgrain production. That benevolent and well-intentioned foreign organisations have offered financial and technical assistance to adopt and work out the scheme should not make these questions redundant or irrelevant.

AGRICULTURAL UNIVERSITY FOR ANDHRA PRADESH

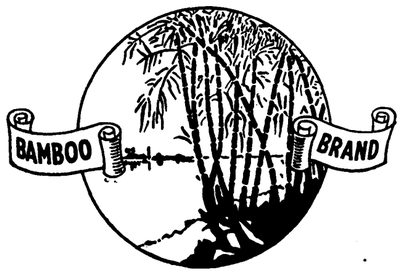
Close on the heels of India's first agricultural university inaugurated in Uttar Pradesh a few weeks ago, plans are being finalised to establish another institution in Andhra Pradesh, at Rajendranagar, about 11 miles from Hyderabad. Rajendranagar is already a hive of agriculture research and training institutions and it is considered only a short jump to the agriculture university—patterned largely on the Land Grant Colleges of the United States. Much of the planning has been done in conjunction with American advisers sent to India under the U.S. Government aid programme.

This rural area with all the facilities of electricity, communications and water supply, which will be converted into a 2,000-acre campus, has already within easy reach a large agricultural research station, cattle breeding and dairy farms and training centres for community development personnel. What is more, a college of agriculture, which will form one of four constituent colleges of the proposed university, is already in operation with hostel facilities. Again, as a nucleus for a full-fledged college of veterinary science and animal husbandry, a school offering a two-year course in the subject has been established. Eventually, the planners hope to have two more colleges, one for agricultural engineering and technology and another for home science. These will complete the agricultural university programme. The university will have a separate board of management, a vice-chancellor, deans and directors of teaching, research and extension.

Since the inception of Andhra Pradesh in 1956, the State has been forging ahead with planning for a rural university, outlined by an Indo-American team of experts about the same time. A blueprint for such an institution was drawn up by Dean H. W. Hannah of the University of Illinois. Further impetus and support for the university scheme was given by the members of the Kansas State University team of agriculture and veterinary experts assigned to institutions in Hyderabad.

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By K. R. P. AIYANGAR

CHAIRMAN, TARIFF COMMISSION

PROTECTION has now become ensconced as an objective of State policy in most industrially advanced countries which recognise their progress as due to it. It is even more justifiably sought by less advanced countries with a developing economy. But, over a hundred years ago, great controversies raged in the United Kingdom over *laissez faire versus* protection among political groups, as well as economists. Primed on political ideologies, the controversy got accentuated in the early decades of this century, till the compulsion of economic facts in the inter-war years broke down the resistance to acceptance of protection in that country. It was over this period, too, that the economy of the U.S.A., which, from the beginning of the last century had established a protective tariff, was growing from strength to strength. Though votaries of free trade were accustomed to describe these developments as unplanned and the resultant benefits to a country accidental and to point out to the corrupting influence of tariff and high cost incidence of protection, there is no gainsaying that development of indigenous industries was greatly helped in a large number of countries only by pursuing a policy of protection. In this short article, it is not possible to cover the general development of protectionist policy in other countries and only the background in which the policy of protection evolved in India is dealt with.

Practices Elsewhere

In all democratic countries, though taxation measures are undertaken by the legislature, the executive has, to varying extent, been delegated powers to initiate and alter tariffs. The agencies concerned that accord tariff protection have, however, evolved over a period in different countries and have generally a common organisational and functional pattern. In the U.K., the Safeguarding of Industries Act, 1921, set up the Import Duties Advisory Committee, a non-political body vested with the power to advise Government in the matter of tariff making. The objects of the Act and subsequent legislation in the same line which were protectionist, by and large, were: improving the balance of payments by encouraging exports and reducing imports, increasing domestic employment and encouraging domestic industries through judicious and scientific protection, safeguarding essential and key industries and developing protective duties into a weapon of tariff bargaining. The Committee was given power to recommend additional duties where necessary to deal with appeals relating to variations in duties and adjudicate complaints about dumping. It had no role in the matter of advising on trade agreements which lay exclusively within the discretion of the Government. The Import Duties Advisory Committee has now become only a fact-finding committee assisting the Board of Trade in the discharge of its duties. As regards monopolies and cartels, the Monopolies and Restrictive Practices Act, 1948 has set up a separate body to deal with them and the Restrictive Trade Practices Act, 1956 has set up a separate tribunal to deal with the restrictive practices in general. Price inquiries by these Commissions come in only as incidental to their activities.

While the U.K. had developed as an industrial country without need for protection, it was realised by the turn of this century that trade between Commonwealth countries could expand only by pursuing a semi-protectionist policy. This was the origin of Imperial Preference. In the case of Commonwealth countries, although a protective tariff was in vogue in the beginning of the century, it was only in 1921 that a Tariff Board was set up in Australia and in 1931 in Canada, the object being to have an agency for applying scientific tariffs. The functions of the Board are advisory and include recommending grant of protection, interpreting customs tariffs, reporting on revision of what in Australia is called "deferred duties" similar to grant of anticipatory protection, the duties coming into force in certain contingencies when the industry is extended, and examining whether manufacturers have taken undue advantage of protection. The Tariff Board is also the machinery for recommending anti-dumping measures. The Annual Report of the Board to Government normally gives the follow-up on activities relating to protected industries. No obligation as such is cast by the statute on these industries.

Position in U.S.

In the United States, the beginnings of protection are to be traced more than 130 years ago, when Alexander Hamilton, following the lead given by Fredrick List in Germany, sought to ensure the economic destiny of the country by nursing "infant industries" under cover of protective duties. Otherwise, it would have been extremely difficult for them to grow under conditions of free trade as obtained in the U.K. which had already entrenched itself in the world markets. Tariff making was a function of the Congress, but measures evolved over a period on the advice of Congressional Committees were found unscientific and sporadic and it was only in 1916 that the United States set up a Tariff Commission whose duties covered inquiries into protection to industries, customs administration and international commercial relations. Besides gathering and organising information for enacting tariff legislation, the Commission is also charged with the function of regulating imports, enforcing the U.S. Government's agricultural programme, negotiation of trade agreements particularly with reference to what has been described as "peril points" investigation, i.e., determining the point up to which duties could be decreased without injuring the domestic industry, or to determine the limits of increase necessary by way of additional duties to avoid a threatened injury to domestic industry from competition from overseas goods. In regard to trade agreements, the advice of the Commission on the application of the so-called "escape clause" is obligatory. Protective principles of tariff making set out in the Act are to provide revenue, to regulate imports, to protect industries from foreign competition, to encourage industries of the United States and to protect American labour. For fixing the duty, the main operative principle is equalisation of costs of overseas imports with the cost of the domestic product, as thereby it was suggested that there would be equality of opportunity to both domestic and foreign competitors in the American market.

II

Evolution of Protection in India

In India, since the middle of the last century, the policy of Government was generally influenced by that of the Government of Great Britain of the day, and by and large *laissez faire* held the field, despite the demand of Indian nationals for active assistance of Government towards industrialisation of the country. Though the *Swadeshi* movement in 1905 did not yield immediate results, it was about that time that the first unit in the basic industry, iron and steel, and the first one to receive protection later on, came to be established at Tatanagar. The First World War brought home to Government the necessity of establishing key industries, and this was highlighted in the recommendations of the Industrial Commission, 1917. The acceptance of the convention about the fiscal independence of the Indian Government was followed by the appointment of the First Fiscal Commission in 1921, on whose recommendation the formula for what has been described as "discriminating protection" was laid down and the Tariff Board came to be established as an integral part of the scheme. Four major industries, iron and steel, cotton textiles, sugar and paper were among the earliest to receive protection on the advice of the Board. A number of industries had grown up during the period of World War II, though the country was still ill equipped to make any large-scale industrial contribution to the war effort and an assurance had been given that they would be protected afterwards from unfair competition. Most of these cases came to be reviewed by the *ad hoc* Tariff Board set up in 1945.

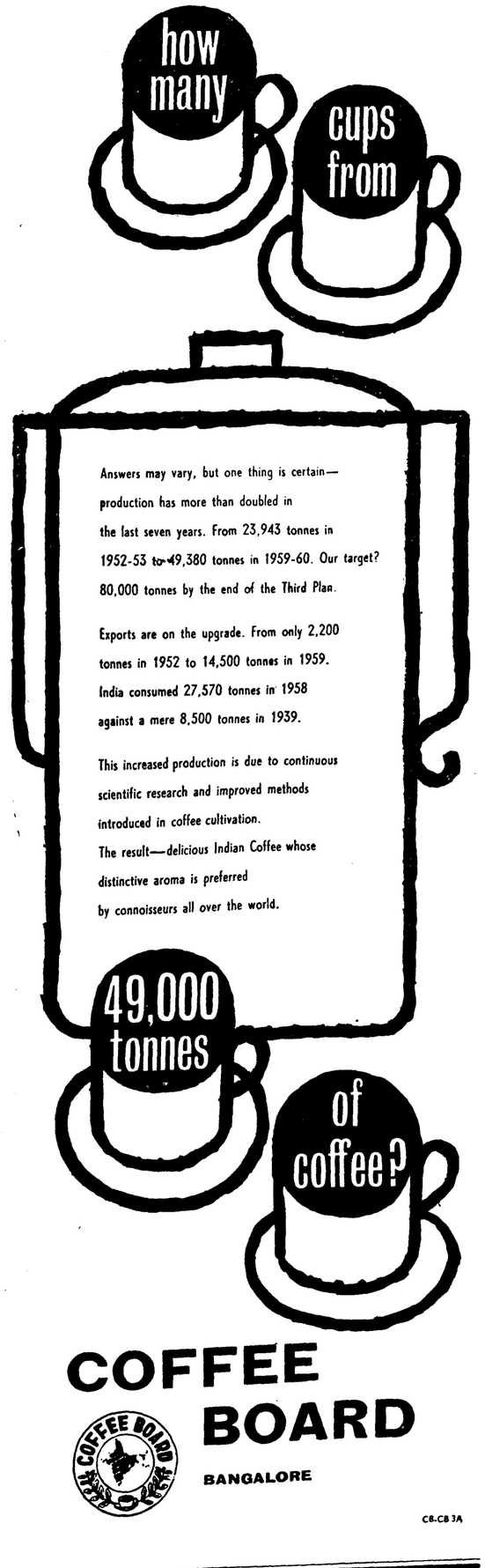
The machinery and procedure of the *ad hoc* Tariff Boards were, however, found, in the light of experience, to be unsuitable for dealing with the question of protection as part of a dynamic policy for planned development of industries. With the dawn of independence, the beginnings of a plan for development of the country took shape. The economic objectives of State policy came also to be embodied in our Constitution. This has given shape to the developmental aspect of protection in this country as distinct from mere tariff protection. Thus, the resolution on Industrial Policy states: "A dynamic national policy must therefore be directed to a continuous increase in production by all possible means, side by side with machinery to secure equitable distribution." Further, "the tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources, without imposing unjustifiable burden on the consumer." The Second Fiscal Commission appointed in 1949 to review the tariff and fiscal policies of Government, besides outlining the methods of progressively implementing such a policy in the field of industry, recommended the setting up of a permanent Tariff Commission.

This is the background in which the present Commission has been set up and the Tariff Commission Act 1951 (Act L of 1951) lays down the functions and guiding principles for the Commission. It will be observed from a detailed scrutiny of the various provisions of the Act that, unlike in the case of other countries which have set up similar bodies, the functions of the Commission are not sought to be oriented only in relation to tariff protection but are wider and stress is laid on the developmental aspects of protection. While in the case of the United States, the establishment of an independent Tariff Commission was with the object of attempting to take tariff out of politics and in the case of some of the Dominions the object was to have independent fact-finding expert bodies to fix the tariff quantum and these objectives have been reached by different steps taken by legislation, it is only in the case of India, since independence, that protection for industry has been evolved not merely as a matter of administrative expediency but as a part of constitutional or State policy.

The directive principles of tariff making, as laid down in the U.S.A. Tariff Act of 1930, are to provide revenue, regulate commerce with foreign countries, encourage industries of the United States and to protect labour. The main operative principle for fixing the rate of duties is what has been described as the principle of equalisation of costs, i.e., the Commission is required to investigate the difference in cost of production of foreign articles and similar articles manufactured in the United States and to recommend a rate of duty which will equalise the cost of production of the domestic product. This rigid principle probably came to be observed in the context of current theories of international trade. The Australian Tariff Board Act, apart from the principle of determining the quantum of protection on the basis of comparative cost of production, also requires to take note of the basic requirements of the industry and protective duties are to be recommended only if fresh imposition will benefit the community as a whole. The Canadian Tariff Board Act requires that a similar factual assessment shall be made by the Board. For recommending duties, comparative costs of indigenous as well as overseas producers are reckoned taking note of efficiency of labour in indigenous industries; but, in the ultimate analysis, protection is determined in terms of apparent value of the industry to the national economy.

The Old Formula

In India, the policy of discriminating protection, accepted on the recommendation of the First Fiscal Commission in 1923, really had absorbed contemporary economic thought in the matter of justifying tariff protection. The old formula required that an industry receiving protection should (*a*) possess natural advantages in regard to raw material, power, supply of labour or a large home market, (*b*) that without protection there was no likelihood of the industry developing at all and (*c*) that the industry should be one which could eventually face outside competition if protection is withdrawn after some time. The rigid application of these conditions had prevented not only some nascent industries receiving protection, but even retarded setting up of industries that might be considered key industries or of strategic importance. The terms of the *ad hoc* Tariff Board set up in 1945 were for these reasons deliberately widened and the Board was required to satisfy themselves mainly that an industry seeking protection was an established one, conducted on sound business lines and would develop under protection within a reasonable time or it was an industry to which assistance





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should be granted in the national interest. In fixing the quantum of protection and the period, the Board was required to give weight to the interests of the consumer and also to consider additional or alternative measures to tariff protection.

In the Tariff Commission Act of 1951, these directive principles relating to the scope and function of the Commission have been incorporated in a comprehensive manner and in great detail. As regards *forms* of protection, recognition is accorded to grant of protection in various ways, by levy of protective duties or by grant of subsidies or in any other suitable form. For instance, at one time, the aluminium producers had received a subsidy. The Act makes it possible to introduce other non-fiscal measures. The *object* of protection as laid down in the Act is the encouragement of industry in India. A noteworthy departure in the *scope* which goes beyond the 'infant industry' argument is acceptance of the principle that protection may be granted even to an industry which has not started production but which is likely to do so if granted suitable protection. This principle of 'anticipatory protection' had also found tacit recognition in the Australian Tariff Board Act in regard to the system of "deferred duties;" but is more far-reaching. There has yet been no instance in India of full-fledged anticipatory protection being granted; but the existence of this provision in the Act would moderate any rigidity in dealing with cases of infant or nascent industries that need development under protection.

Fundamental Basis

Fundamentally, the *method* of tariff protection is to base it on costs. In dealing with any case of protection referred to it by Government, the Commission is, therefore, required to pay due regard to several cost factors. The cost of production or manufacture of the indigenous commodity and the approximate cost of production or manufacture of a similar article in the principal overseas exporting country are to be compared by adding the cost of import of any such competing commodity. Since there may be variations in cost, regionally or between individual producers, a cost has to be determined which will be *representative* of the industry concerned. The cost for this purpose is not the ex-works cost of the indigenous producer but the price which may be deemed to be a representative fair selling price of manufacturers in India. The comparable cost is the c.i.f. of the like imported commodity. In making recommendations as to the quantum of duty to be imposed, the Commission has to take note of the *quantities* of the commodities required for consumption and the quantities thereof produced or imported into India.

The introduction of these comprehensive terms in the Statute carries wide implications. Not only are the difficulties and pitfalls inherent in determining comparative costs of the indigenous product and the overseas product which beset application of the rigid formula in the United States and some of the Dominion Tariff Acts avoided, but some of the usual criticism attached to the grant of protection is forestalled. Thus, the main difficulty in applying rigidly the comparative costs principle is that the reduction costs of overseas producers cannot be accurately measured except in terms of prices at which the product can be imported. The market value of the product of the importing country need not necessarily conform in all cases with costs of production in the manufacturing country. Geographical or technical considerations may also have to be offset in any cost equalisation. Again, the assumption that an import duty causes a rise in price to the same extent for the product brought into the country is fallacious, as the levy of duty sometimes may have no influence on domestic prices or it may raise price of the dutiable commodity to its full extent or it may have an intermediate effect between extremes depending on the quantum of indigenous production and imported supplies. Hence the Act specifically suggests that the quantum of import should be taken note of in the context of price comparison and duty fixation. In order that these aspects of the case may not be overlooked, the Commission is directed under the Statute to assess the relative advantages enjoyed by the industries seeking protection, and the nature and extent of foreign competition.

Rigidity Avoided

Protection is invariably recognised as a *temporary* measure, except where it is for attaining self-sufficiency or on grounds of public interest. It is accorded only where there is a possibility of an industry developing sufficiently within a reasonable time to be able to carry on successfully even after withdrawal of protection. That protection casts a heavy burden on the consumer is fully recognised and the need to keep the burden as low as possible and for as short a time as possible is also embodied in the Statute. But, while these points are kept in view by the Commission in recommending or rejecting an application for protection, the Act avoids a rigid prescription of *conditions* on which only protection may be granted. The Commission, however, is empowered to lay down conditions which a protected industry is to fulfil in the interests of consumers as well as in its own long-term interest. The conditions may relate to the scale of the output, quality of the product, the prices to be charged, technological improvements, research and training to be adopted by the industry, extended use of the indigenous product whether raw or manufactured and such other matters.

As an independent fact-finding advisory body, the Commission is further required to keep Government informed about the *effect* of protection on general level of prices in the country and cost of living of the community, the effect of protective tariffs on industries using the protected commodity, the effect on other industries and in particular on cottage and other small-scale industries. These considerations would indicate that grant of protection is an *integral* part of industrial development. Though the Industries (Development and Regulation) Act directly deals with licensing, control and expansion of industries, the duty is also cast on the Commission to report on the impact of protection in the context of industrial development. This is sought to be done by the periodical reviews made by the Commission regarding the costs of production, scale of output, quality of product, prospect of expansion of a particular industry and its usefulness to the country's economy.

The Commission is empowered to make a *suo moto* review of continuance of protection, with a view to deciding on modification or abolition of the protective duties that may be found necessary in the light of changed conditions according to the circumstances of the case, and also make suggestions to avoid any anomaly that may result from the working of protective or revenue duties, as, for example, in relation of duty between finished and partially finished goods and raw materials. While this levy of duty is governed by the Tariff Act and ordinary changes of revenue duties are carried out only through Finance Acts, it is on the advice of the Commission that adjustments or alterations of duties that may be necessary to ensure adequate protection from time to time, to avoid excessive protection or other tariff anomalies are to be carried out.

Dumping

Measures to safeguard against dumping and retaliatory duties are usual weapons in the armoury of a protective tariff. While anti-dumping measures and retaliatory duties are imposed in the U.K. by executive order, in this country, action against dumping of goods can be initiated by Government after reference to the Tariff Commission and on its advice, as is the case in the U.S. and certain commonwealth countries. While in certain countries the negotiation of trade agreements and tariff concessions based thereon is left to the discretion of the executive and in others it is a matter to be decided in consultation with the Tariff Commission, the Indian Statute lays down that such cases may be referred to the Tariff Commission for advice on the effect they may have on the development of any specified industry. This is to ensure that protection to an industry is not adversely affected by any such measures. In the absence of a general statute governing monopolies and restricted practices, in so far as protected industries are concerned, the duty is cast on the Tariff Commission to report whether such an industry is taking undue advantage of tariff protection and charging unnecessarily high prices, or acting in a manner involving the charging of high consumer prices with limitation of quantity, deterioration of quality, inflation of cost of production or in any other manner acting in restraint of trade to the detriment of public interest. Perhaps, on a reference from the Government, the Commission can report on other cases also.

Price controls had originated during the war period and price inquiries had been made at the instance of Government by the Tariff Boards or by *ad hoc* bodies like the Commodities Prices Board. The control of prices now derives its statutory authority from the Essential Commodities Act as well as from appropriate provisions of the Industries (Development and Regulation) Act. The Tariff Commission Act also includes a provision enabling the Central Government to refer to the Commission the question of fixing of fair prices of commodities whether protected or not.

III

Results of Protection

Having indicated the principles by which the grant of protection is to be governed, it will be interesting to see how far the economic objectives are capable of attainment. The arguments for protection have been thus marshalled:—

"A scientifically designed tariff equalises the production costs of the home and foreign producer; assistance is given to nascent and temporarily depressed industries; home markets are created and existing markets are stabilised; it assists the formation at home of large producing units which are better able to compete with the foreigner in the world markets; and that where the home market is important to the foreigner, it induces him to sink money in the

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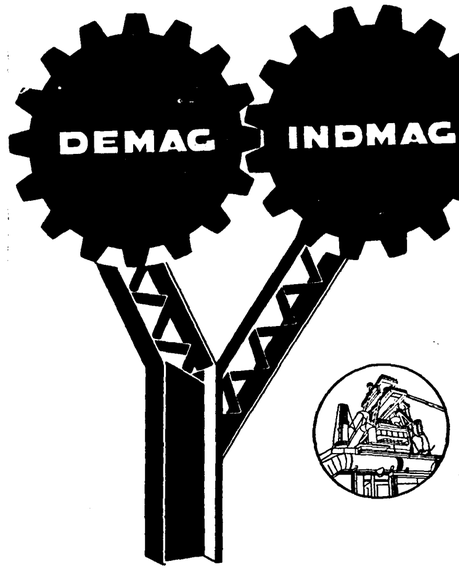
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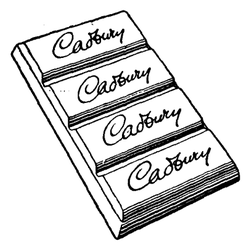




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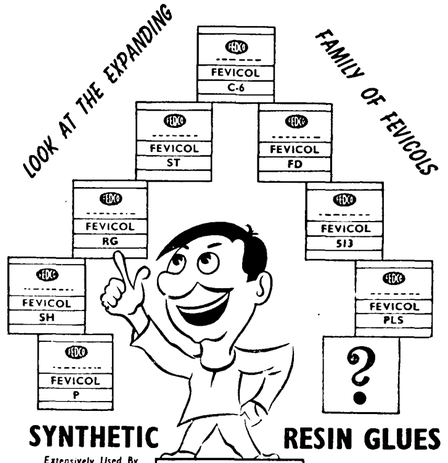


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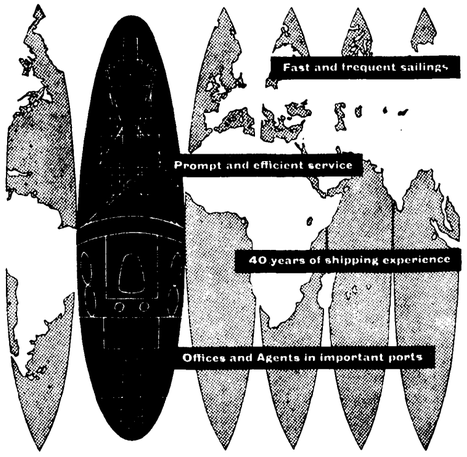
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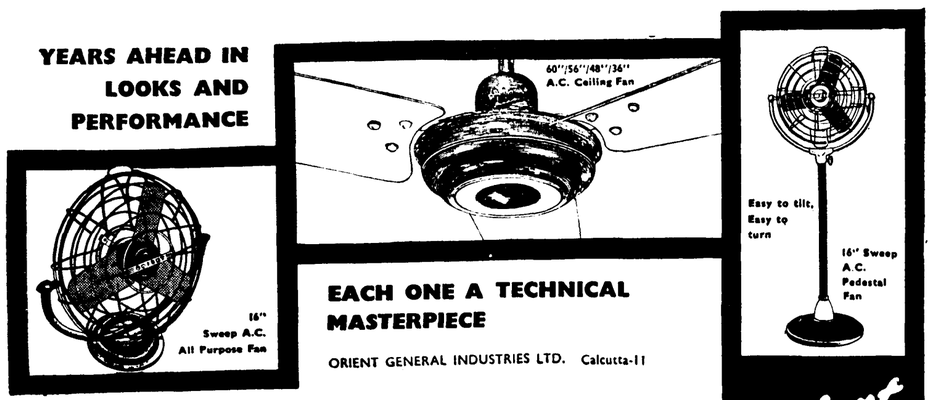
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country in order to retain it. As a consequence, employment is increased; wages tend to rise and idle capital and labour are brought together. Hence greater prosperity will result behind the tariff barrier and the receipts from direct taxes will swell, so that the need for revenue from imports will become less urgent. Further, the protective tariff will strengthen the bargaining power of Government in its efforts to obtain access for the domestic products in the foreign markets, and, therefore, assist in any endeavours towards a general lowering of the tariffs. If, in addition, the Government is permitted to discriminate with rates against imports from particular countries, it has greater power of retaliation when the nation's tariff is politically expedient to ensure the maintenance of certain key industries within the country in order to preserve the safety of the State in time of war." (*Vide* E. B. McGuire: *The British Tariff System* p. 88.)

While the theoretical reasoning may be assailed by those opposed to protection, it has to be admitted that in the light of experience in India, many of the consequences envisaged have followed the grant of protection. A review of the application of protection is, therefore, attempted.

Since 1923, when the policy of protection was first adopted by Government, the Tariff Boards and the Tariff Commission have examined 108 cases of industries which had applied for protection or assistance. In 66 of these cases, protection was granted and all the remaining claims to protection were rejected. In granting or refusing protection, the Commission always gives due weight to the interests of the consumer. Where working conditions, raw materials and other facilities available for development are unsatisfactory and an industry cannot ever envisage quality or costs comparable with that of the imported product and as a result a protective duty for an indefinite period will be necessary to keep it alive, the application for protection is turned down, e.g., liver extract, para aminosalicylic acid. But, where prospects of an industry's development are good, the Commission has not been deterred from recommending very high duty of protection, e.g., in the case of grinding wheels, car batteries, ball bearings.

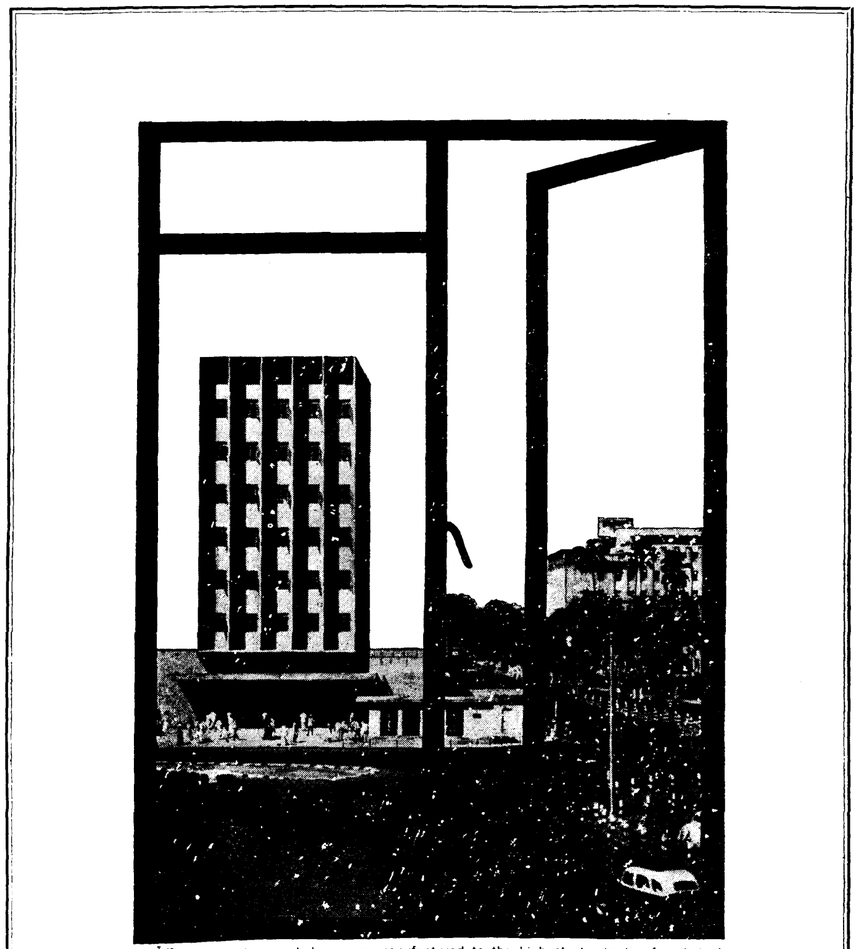
Forty-three industries which have received protection have, during this period, been de-protected also. De-protection generally takes place after an industry has developed satisfactorily and no longer stands in need of protection. The old cases which had come to be dealt with under the policy of discriminating protection were iron and steel (1924), paper and paper pulp (1925), cotton textiles (1926), sugar (1932) and artificial silk (1934). They were de-protected after the industries had established themselves properly with adequate protection for 23 years, 22 years, 21 years, 18 years and 24 years, respectively. In all these cases, though the period of protection had been fairly long and at one time or other there was criticism of the performance of the industry, they succeeded in stabilising themselves and their production expanded satisfactorily to meet the country's requirements without undue price burden to the consumer.

Some of the industries which had grown up during the war period (about 34 in number) and had been given protection since 1947 have also developed well under the shelter of the protective tariff. They have been de-protected after a relatively shorter spell of 5 to 12 years. In the majority of cases this was done after it was ascertained that the prevailing level of revenue duties (on imports), in the changed circumstances of the growth of the industry, would be adequate to offset any cost disadvantage. These include batteries for motor vehicles, bichromates, calcium chloride, coated abrasives, cocoa powder and chocolate, cotton and hair belting, dry batteries, electric brass lampholders, ferro-silicon, glucose, grinding wheels, hydroquinone, machine screws, oil pressure lamps, pencils, photographic chemicals, pickers, preserved fruits, sago, sewing machines, starch, steel baling hoops and belt lacings.

In some cases, protection was withdrawn after a short period as no satisfactory progress had been made and there was no possibility of the units stabilising themselves on an even basis, as, for example, phosphates and zip fasteners. The only instance where protection has been continuing on an indefinite basis is that of the match industry (1928) where a high import tariff as well as an excise tariff continue mainly for revenue considerations. The industries still receiving protection are aluminium, antimony, automobiles, automobile sparking plugs, ball bearings, bicycles, calcium carbide, caustic soda, cotton textile machinery items, diesel fuel injection equipment, dyestuffs, electric motors, engineering steel files, matches, non-ferrous metals, piston assembly, plastic moulded buttons, power and distribution transformers, sericulture, sheet glass, soda ash, stearic and oleic acid, titanium dioxide, bare copper conductors, A.C.S.R. and A.A.C.

Industrial production during 1959 has recorded an all-round improvement owing to concerted efforts by industries to reach the planned targets and the trend in the protected sector has been in keeping with this development. During the last three years, there has been an increase in output due to fuller utilisation of capacity or installation of new capacity. There has been considerable diversification of production as well. Among protected industries which have exceeded the planned targets are plywood and tea-chests, grinding wheels, electric motors, power and distribution transformers and bicycles. In comparison with the general indices for industrial production, certain protected industries have shown noteworthy increases, e.g., caustic soda, aluminium and conductors. Sewing machines, recently de-protected, is an instance of an industry which has definitely developed vigorously only due to protection. As compared with the industrial sector in general, the price trends have been better held in protected industries, e.g., transformers and bicycles. The quality of production turned out by protected industries, to which the Commission attaches the greatest importance in the course of its inquiries, has also been found generally to be improving satisfactorily. The financial results of working of units in the protected industries have also been found satisfactory, with moderate, if not spectacular, profits in most cases. Several units have been found to build up and use their internal resources purposefully and many have found it possible to attract more capital for expansion and development. In fact, it may be claimed that the scheme of protection has given active encouragement to such expansion of industries. Employment in protected industries taken together (despite a large number of big industries having been de-protected) has also steadily risen and, by and large, better wages and better production have been found to be maintained. It may, therefore, be concluded that

(*Continued on page* 132)



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OBSERVATIONS ON PRIVATE SECTOR IN INDIA

Businessmen Should Avoid Doctrinaire Approach To Economic Problems

By Dr. HENRY H. SCHLOSS
WASHINGTON UNIVERSITY, ST. LOUIS 30, MISSOURI

FOR about ten months, from August 1959 to June 1960, I had the opportunity to study the Indian economy. My special interest was the role the private sector in India is playing now and can potentially play in the future. I appreciate this opportunity to put some of my observations before an Indian audience. I cannot attempt a complete survey of the Indian economy, but I shall discuss some selected issues where I hope my comments may be of some interest and, therefore, frequently controversial. I am conscious of the fact that it is somewhat presumptuous for an outsider like myself with only limited knowledge of Indian conditions to make the kind of judgments I have made. I must, therefore, ask the indulgence of the reader for any errors of fact or judgment based on erroneous impressions I have formed. I hope that my knowledge of Indian conditions is adequate to avoid any major errors. Of course, on policy matters there is always room for disagreement. I cannot close this opening paragraph without using this opportunity to thank the countless individuals and organisations in business, industry, Government and the universities for the courtesy with which I was received everyhere, and the generosity with which everyone has given me of their time and knowledge.

Relative Merit

The roles played and the potentials available by the private sector in the economic, social and political setting of India can be discussed in terms of the relative merit of the public and private sectors in providing the best entrepreneurship. Entrepreneurship performs at least three essential functions. First, there is the function of conceiving the new enterprise (or the extension of an existing one), exploring its feasibility and getting it organised. While I have no really conclusive evidence of this, my judgment is that the framework of private enterprise is more successful in performing this function. I do not want to pursue this point further, however. The second function of entrepreneurship is to finance the enterprise and assume the risk of financial loss against the potential of gain. I want to note here that, in the case of a State-owned enterprise, the gain need not be in terms of financial profits but can be in terms of the achievement of some public purpose, e.g., the eradication of a disease. It is my impression, again without giving any detailed analysis, that it is not at all clear in the present Indian setting which type of enterprise, publicly or privately owned, had the advantage. Nor is this the place to discuss what contribution public enterprise should make to capital formation and/or public revenues.

I now want to discuss the third function, the efficient management of the enterprise, in some detail. The judgment as to whether private enterprise in terms of this function is preferable to public enterprise or *vice versa*, presumably must depend on which can perform more efficiently. While I have more to say later about what is meant by efficiency, I mean here a mangement which, with the given resources, can produce the desired goods the cheapest way, or the management which can make use of such resources (and I use the term resources in a "real" not only in a financial sense) as are available, to produce the desired goods and services.

In view of the ambiguity which exists as to what we really mean by "efficiency" (see below), it is not possible to devise a simple statistical test to find which type of enterprise has performed better in India. Likewise, there are few instances in India where public and private enterprises exist in comparable activities. They do exist in the case of coal, but I am told that the type of operation carried on by the publicly-owned and the privately-owned enterprises are so different as to make a comparison meaningless. In the case of steel, a comparison may be possible within a year or two, but, even here, difficulties arise, because of such factors as the building of the Government and private steel plants under different cost conditions (e.g., price level differences at the time of construction), location conditioned by technology existing during different decades, or possibly being affected by non-economic considerations, and other differences. One area where I thought a comparison might be possible is road transport. Unfortunately, I was unable to find the necessary data to compare the costs of publicly and privately run enterprises. I would urge someone in a position to obtain such data to make this comparison. I realise full well that, here too, special circumstances arise. Public ownership in road transport is by the State and not the Central Government. The firms tend to be small by comparison to large industrial enterprises, leading to possible problems of attracting qualified personnel. The pending threat of nationalisation may affect the efficiency of the private unit; there are others. Another "industry" where someone could usefully do a study of comparative efficiency of management is commercial banking. While here, too, we have special problems, it would be interesting to see what a comparison of the costs of the Government-owned commercial bank and privately-owned banks would show. This latter group would be particularly interesting, because we have both Indian-controlled and foreign-controlled banks in operation. The sugar industry is still another possibility.

Management

The problem regarding the relative efficiency of management in the public and private sectors I want to comment on is a different one, however. In the United States, a phenomenon, frequently referred to as the "Managerial Revolution"*, is increasingly recognised. This "revolution" is the simple fact that, in the modern corporation (joint-stock company in Indian usage), there is increasingly a divorcement of ownership and management. In other words, the modern corporation is increasingly run by a group of professional managers and not the owners. Management is responsible to the owners only in some ultimate or crisis sense. The degrees of this divorcement differ, of course, but an American corporation like the American Telephone and Telegraph Company, with close to two million shareholders and no shareholder owning as much as one per cent. of the stock outstanding, is an extreme case. The implication of this "revolution" to the public sector-private sector controversy has received scant attention. What it clearly means is that the efficiency of the enterprise (increasingly, even in India, a corporation) depends not on the owners but on the quality of the professional management, if such management is, in fact, permitted to operate independently. This frequently happens in India and elsewhere. In the case of the United States, we have, of course, such quasi-independent publicly-owned enterprises as the T.V.A. (Tennessee Valley Authority), and, in India, many publicly-owned enterprises have been set up as private limited companies, with the management being given considerable leeway in the management of the affairs of the company. This, however, says nothing about how the management is selected initially. After it is entrenched, it often becomes self-perpetuating.

*See, for instance, James Burnham, *The Managerial Revolution*, New York: John Day, 1944.

A Distinction

My subjective evaluation of the efficiency of Indian enterprises would bear out the following distinction, based on the foregoing analysis (in spite of noteworthy exceptions):

In terms of efficient management, the fact whether or not the owners of an enterprise are a governmental unit or a private person is not the most important variable. Among privately-owned firms, those large enough or progressive enough to have a group of professional managers seem to be better managed than those which are tightly controlled by the family. The latter too often give rise to the inefficiencies so characteristic of the French economy until recently. An even sharper distinction can be made in the public sector between those enterprises which are organised as private limited companies with more or less independent management and those public enterprises which are departmentally run (closely controlled by the "family" as it were). The former type clearly seems to be the more efficient. I am convinced that, if one could rank the ten or so most "efficient" enterprises in India, one would find, in such a list, both publicly-owned and privately-owned enterprises, but one would find primarily firms with an "independent" management. As I stated earlier, I know there are exceptions. I have seen some extremely well-managed firms which are small and strictly a one-man show. There are other exceptions. The important point I want to make, however, is that the performance of a professional management does not primarily depend on the legal structure as to who (Government or a private individual) owns the shares. I should remind the reader that I am speaking here of the management function of entrepreneurship and *not* all of its functions.

Productivity and Efficiency

There is a great deal of concern over the problem of increasing productivity and increasing efficiency of Indian industry. It is rather less clearly understood just what is involved here, i.e., what are the relevant concepts and therefore the measures of productivity and efficiency.

As far as productivity is concerned, one must distinguish between the productivity of capital, frequently measured by capital-output ratios, the productivity of labour, generally measured by measures of output per worker, and the productivity of land, generally measured by indices of yield per acre. I would strongly urge to add a fourth concept which has not been developed fully even in the purely theoretical literature: productivity of foreign resources which could perhaps be measured by a concept analogous to the capital-output ratios, namely, foreign capital-output ratios. The significance of the difference between these concepts is the fact that alternate economic policies will maximise productivity of different factors of production. It is rarely possible to find an alternative which will maximise the productivity of all factors. It is all too obvious that economic policy must try to make the best use of the scarcest resources to maximise total output. It is for this reason that I advocate a more careful analysis of the productivity of foreign resources which I believe to be the most important single bottleneck in the expansion of Indian industry.

It is equally true, of course, that, in the long run, the *per capita* output (one form of the productivity of labour) will determine the average income and consumption of the population. It is also true, however, that, in particular enterprises, the productivity of labour, as opposed to the productivity of the other factors, has frequently been overemphasised in India. This results from the use of methodology and thinking developed in countries like the United States where historically labour has been the scarce factor. All this is not to deny that the increase in the productivity of all factors should be encouraged.

More Study Needed

In my discussions with Indian industrial leaders, I was struck by the fact that there is a great deal of awareness of this problem of productivity, while, at the same time, information on productivity is relatively limited. There are, however, any number of specific productivity studies which have been made of individual firms and industries, often not published at all or published in obscure places. As a first step, I would urge some organisation such as the National Productivity Council or the National Council of Applied Economics Research to collect such data on productivity as already is available. It is my hunch that this would yield significant results and would certainly help to chart a course for further work in this area.

Efficiency and productivity are not the same thing. It is a truism that the efficiency of Indian industry, no less than industry everywhere, should be improved, but there is a wide difference of opinion as to what this really means. To begin with, there are those, even in India, who would use profits as a measure of the efficiency of an enterprise. This may be appropriate in a setting, where, as a matter of social policy, the market mechanism is judged to be the supreme arbiter and where management is,

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therefore, judged in terms of its ability to operate in the framework of the market mechanism. This is not the case in India. Such a comparison in terms of profits is particularly inappropriate, if one wishes to use this criterion to compare the "efficiency" of private and public enterprises. It is useful here to distinguish between efficiency on the production and efficiency on the selling side. A public enterprise may be very efficient, in some relevant sense, in the production of some article, but, as a matter of social policy, the article is sold at cost, in a market sense subsidised. Another enterprise may be terribly inefficient in the same sense as the previous enterprise is efficient, but, because of a monopoly position, it may be able to make substantial profits*. One of the distinctions that emerges from this analysis is what may be called private efficiency and social efficiency.

In the management of any enterprise, the problems of setting up an appropriate distribution system such as a sales organisation, appropriate price policy, etc., are as important in determining total efficiency in a relevant sense as efficiency on the production side. For brevity's sake I shall confine my remarks to efficiency on the production side, though they could easily be extended and applied to the distribution side as well.

Limitations

It is frequently argued that the relevant criterion for measuring efficiency is the total cost in rupees per unit of final output. As a first approximation, this may be as good a measure as any, but I do want to suggest a few considerations which are particularly relevant in comparing private and public enterprises. First of all, there is the obvious case where certain expenses of the enterprise are borne by the Government or some other outside unit (research results, for instance, could be made available gratis or at a nominal charge by a foreign Government or firm). To the extent that this is true, the total costs incurred by the enterprise do not reflect the true costs which are relevant in judging the "efficiency" of the management of two enterprises. One management could be clearly more efficient in operating its plants but show higher total costs than another enterprise with which it is compared because the former bears "all" costs, while the latter, which is less efficient, gets some services free or at subsidised rates. Similarly, particularly in an underdeveloped country, one enterprise may be able to rely on many services produced by other enterprises (as a result of availability of better social overheads and external economies) while the other enterprise may have to produce all services itself, e.g., it may have to produce its own power, it may have to provide its own carpenter and electrical maintenance, etc. To do this may be more expensive than to be able to buy these services. The existence or absence of the availability of such services is relevant in the selection of plant sites on efficiency grounds, but, in judging the relative efficiency of the management of two existing enterprises, it is not. Likewise, and this is a very real problem in many enterprises in India, one enterprise may have redundant labour as a result of a reduction in output resulting from steel or other shortages which are not the fault of the management. Again, this will inflate its costs because of the inability under such circumstances to retrench labour. The question arises, whether, in such circumstances, it is relevant to compare the performance of two managements simply in terms of total manhour costs. There are other similar problems.

Some enterprises, particularly enterprises conducted with foreign collaborators, compare their performance in terms of factory labour used per unit of output in India with the comparable ratio in the factory of the foreign collaborator. Several Indian enterprises have attained a ratio close to parity with that of their foreign counterpart. In passing, I should point out here that, in practically all the firms where I have seen such comparisons, they are confined to labour in the factory, excluding general maintenance and administrative overhead. I would suspect that, on both of these counts, and particularly on the latter count, most Indian enterprises would compare unfavourably. Some of the factors mentioned above (e.g., redundant labour) will also affect this comparison.

Waste of Capital

In this connection, I need to refer again to a distinction I made earlier, the distinction between "private efficiency" and "social efficiency." For an Indian enterprise to copy the production techniques of a European counterpart may minimise costs per unit of output in rupees, given the fact that it obtains its capital at prices which do not reflect their scarcity value to the Indian economy. In other words, such a production technique may use an unduly large amount of capital†, in general, and foreign capital, in particular, when other techniques could have been used to produce the same output with less foreign capital, thus freeing foreign exchange for other purposes and therefore increasing the total output of the economy. In this sense, such a substitution could be considered more efficient for the economy as a whole. I realise that this is a somewhat dangerous argument, because it has been used to support the perpetuation and even extension of woefully antiquated methods of production. As is often the case and as a practical matter, economic policy will have to find a solution somewhere between conflicting objectives, in this case conflicting criteria of efficiency.

What I have tried to do in this section is to argue (*a*) that, in comparing the efficiency of private-sector and public-sector firms, the simple yardstick of costs per unit of output is not enough; and (*b*) that, in terms of efficiency, one must distinguish between efficiency as seen by the individual firm and as seen by the economy as a whole. All of this means that, in spite of my own predilections, the evidence necessary to judge whether private or public enterprise in India is more "efficient" is not available, and to the extent that it is available, it is not conclusive. It would be very much worth while to gather as much of the necessary information as possible and, I believe, Prime Minister Nehru suggested, in a Press conference a few months ago, that such a study should or will be undertaken.

There is probably no area in which one hears as many complaints from businessmen, in general, and Indian business men, in particular, as the field of taxation. The complaint generally is the disincentive effect of high corporate taxes and highly progressive personal income taxes. I want to comment on these and some other tax problems briefly.

The corporate income-tax in India at 45 per cent. is less than it is in the United States (52 per cent. for profits over $25,000). Considering the apparently reasonably generous depreciation allowances and the special development rebates, the effective rate of corporate taxes is even lower. I do not believe that such a *rate* is a very significant factor in discouraging either domestic or foreign investment. If the general investment climate is favourable, if the administration of the tax is fair and reasonable, and if there is no administrative harassment in connection with the administration of the income-tax, the investor will accommodate himself inevitably to any reasonable rate. These comments suggest that improvements in the administration of the tax and the removal of certain specific inequities on details, such as the discriminatory rate applicable to foreign companies holding a minority interest in Indian companies and the penalty rate levied on undistributed profits of private limited companies under Section 23A, would be more significant than a change in the rate as such. Similarly, some tax relief on intercorporate dividends might be desirable. The uncertainty of the corporate tax *structure* (as opposed to the rate) seems to be a more serious deterrent to investment than the present rate. The seemingly undue amount of fiscal experimentation in India in recent years is a serious source of such uncertainty which in itself has a serious disincentive effect.

Jungle of Red-tape

Likewise, the tremendous jungle of red-tape and regulation affecting new investment seems to me to be more damaging to new investment than the *rate* of the corporate income-tax. After all, it is more important to have a general social, political and economic climate that permits the making of profits than it is to worry about the rate of corporate tax (within reasonable limits). The arguments regarding the need to permit enterprises to accumulate capital out of retained earnings and the comparison of tax rates with other underdeveloped countries seem to be of less relative importance. The buoyancy of the new issues market in 1959 suggests that the present rates of taxation are not crushing. One has to face the fact that tax revenue has to come from somewhere. Significant changes in the areas suggested above would, however, in my judgment be helpful in improving the general investment climate.

Similarly, regarding the personal income-tax‡, it is always argued, I suspect almost everywhere, that it is so highly progressive as to kill incentive. While I agree that a progressive rate of income-tax is likely to have a disincentive effect at some point for most individuals, I have never seen any actual study, nor do I know any way of determining just how great this disincentive effect really is. I suspect that the major reason for this is that it is different for each individual and different for each individual under different circumstances. As a general proposition, I would be inclined to argue that the disincentive effect could easily be more dangerous somewhere in the middle income group than at the very top. One is reminded here of a comment by the chief executive of one of the largest American corporations who complained about this disincentive effect and pointed out that he is allowed to keep only eight cents out of every dollar he received from his employer. When asked by a newspaperman why he continued to work, he answered, "Oh, you don't understand. There are other considerations." While I do not wish to dismiss the disincentive effect of progressive income-taxes lightly since it does, no doubt, have that effect in some cases, I must emphasise that we simply do not know enough about this problem to generalise. A leading Indian industrialist, talking about the complaints of Indian businessmen about taxation at a meeting in New York early in 1959, pointed out that these complaints sound strange in the light of the rapidly expanding private sector. One more comment. One type of taxation that seems to receive relatively scanty attention on the part of businessmen and yet seems to me to be detrimental to the economic growth of India is the continued existence of local octrois. It is the levying of taxes of this sort which were recognised early in Europe as detrimental to the economic flow of goods and services through the country. I would strongly urge a careful study of these taxes with a view toward their possible elimination.

Manpower Problems

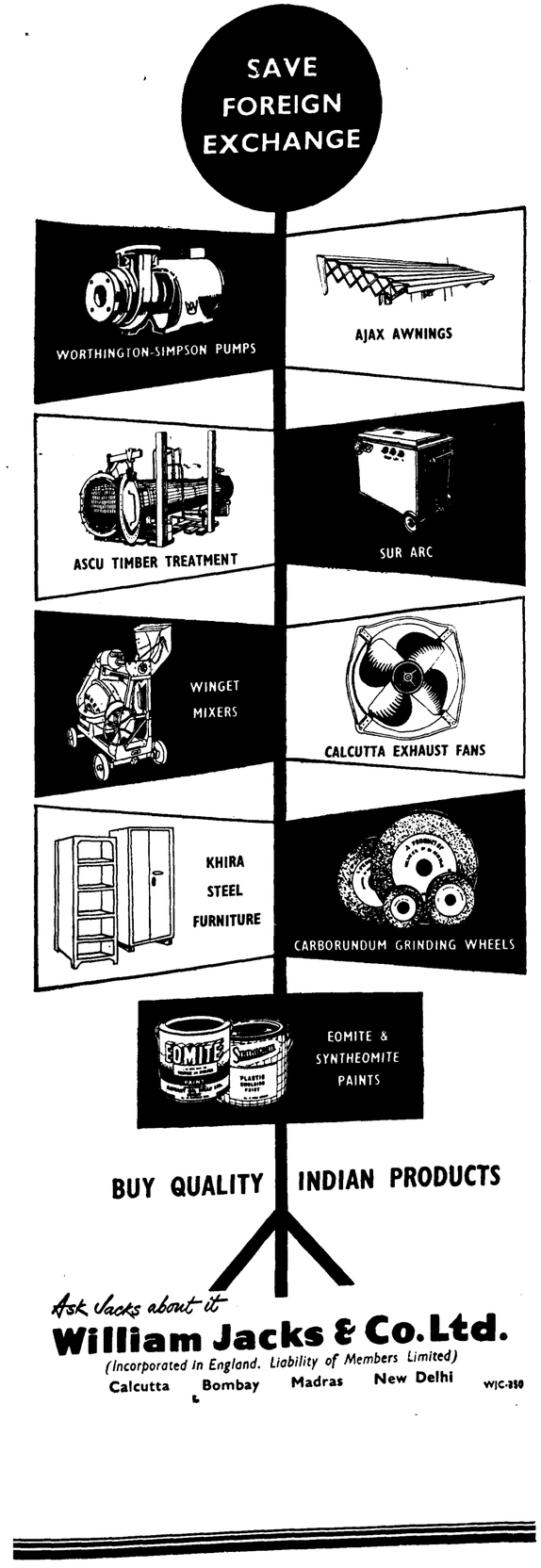
In this area, there are three problems on which I want to comment briefly. First, I was surprised to find what seems to me to be a rather peculiar system of labour relations. The system of labour welfare officers seems like a system of Government-sponsored paternalism in management-labour relations. It may well be that, in the early stages of industrialisation, in the absence of competent and responsible union leadership, paternalism is an appropriate answer to the problem of safeguarding the workers' interests. The history of industrial societies seems to suggest very strongly, however, that a strong and responsible labour union movement is a necessary ingredient in management-labour relations. Workers and management in India seem to have little realisation of this and, with few exceptions, a genuine labour movement seems to be absent. This is reflected in the fact that the union leadership is not, by and large, identified with the workers but often consists of a professional leadership financed by political parties. There seems to be only a limited effort on the part of the workers to develop their own leadership from within their own ranks, although of late, a few efforts along these lines are being made. Likewise, the heavy reliance on Government tribunals severely limits the scope for genuine collective bargaining and workers' representation in grievance procedures. I have the strong impression, although I cannot qualify as an expert in this area, that this is an issue which is largely swept under the rug, as it were, and that a great deal of hard thinking on the part of both management and workers as to the type of management-labour relations system wanted in India is badly needed.

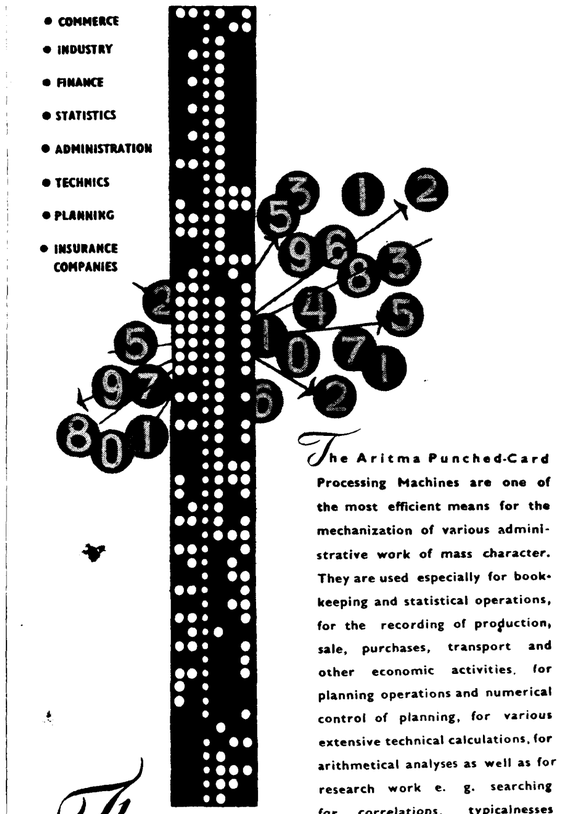
A second problem has to do with the development of what in American usage is called middle management. In talking, as I have, to a fair cross-section of top people in private business firms, public enter-

*Many Indian enterprises enjoy a monopoly or near-monopoly position because of import restrictions.

†I was struck by the fact that, in many cases, Indian industry, especially newly established plants, seem to be very capital-intensive in the light of the abundance of labour (in general but not necessarily of the right skills). I wonder to what extent this is the result of copying Western techniques or the prestige of using such techniques. I suspect that this emphasis on the latest capital-intensive techniques has, among other things, been partly responsible for the relative neglect of the development of agriculture. The difficulty of retrenching workers, referred to earlier, also has tended to have the curious result of making capital a relatively more variable and labour an increasingly fixed factor, the use of which is minimised.

‡I do not know enough about the wealth tax and particularly the expenditure tax to comment on them, although they must be considered as part of the personal income-tax picture.

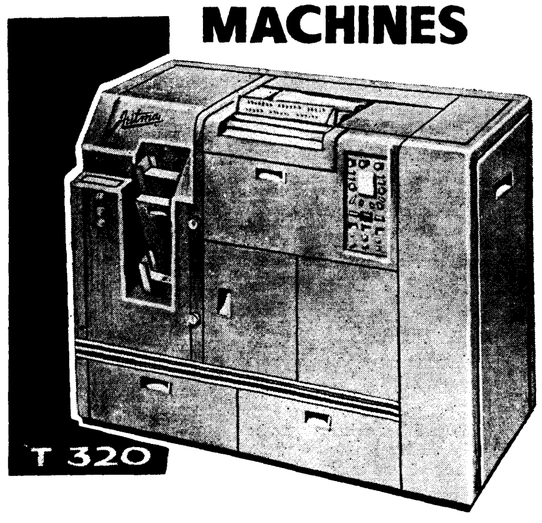




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prises and Government, one cannot help but be impressed with the generally high calibre of the men one meets at the very top. In view of the long discussions in the West about the shortage of entrepreneurial talent in underdeveloped countries, this came as a real surprise to me. There is, however, a great and dangerous void right below the top.* To some extent, this is probably unavoidable, because the opportunities for capable people to gain experience before independence was limited. With the many new needs to fill key positions resulting from the rising tempo of industrialisation after independence, there developed almost unlimited opportunities for good people to rise to the top, while there has not been time enough for a new generation to gain the necessary experience. A great deal of lip service is paid to this problem of the void below the top, but the effective measures which are taken seem to be inadequate to the need. To some extent, we have a vicious circle. Realising this void, there seems to be a reluctance, in many instances, by top management to delegate authority. This in turn makes it impossible for someone in the lower echelons to gain the necessary experience. There are a few programmes specifically designed to meet this need, but I wonder if enough is done to meet the need of replacement and an expanding economy. Enterprises in the public sector seem to have a special problem. As a matter of public policy, top management in these enterprises is given very little, if any, financial inducement in their performance. Many of the present leaders in a sense do not need this inducement, because they are motivated by what I can only call an idealism to seeing the enterprise succeed. This, I think, can be explained in terms of the idealism generated by the struggle for independence. It seems at least doubtful whether it will be possible to pass on this idealism to a new generation of managers.

A Serious Defect

The third problem needs only a brief comment, since, I believe, it is not only widely recognised but substantial efforts are being made to meet it. The need for technicians and many types of craftsmen essential to an industrial society is self-evident. Educational facilities for this type of training are at present woefully inadequate, but new facilities are provided rapidly, but much more needs to be done. A careful assessment of the needs for specific skills must constantly be made. There has been some tendency to develop specialists beyond the immediate absorptive capacity of India. The problem of foreign-trained scientists is a case in point. Many foreign-trained scientists have been, somewhat unfairly in many cases, accused of refusing to return to India because they are unwilling to live on an Indian salary. While no doubt this is true in some cases, there are considerable numbers of foreign-trained scientists, some of whom I have known personally, who would be not only willing but who are anxious to return to India. They are quite willing to accept a job at a reasonable Indian salary if they can get a job where they can do the scientific work they have been trained to do. If they can have a good laboratory and do the work they love, they are satisfied. In many cases, however, specialists have been trained in much larger numbers than India can absorb in the foreseeable future.

A more specific problem I want to discuss is something I could never understand. Why are new share issues—at least in 1959 they were—priced such that enormous profits could be made by anyone able to obtain, in one way or another, an allotment? I am referring here to the issue of shares by new companies, as opposed to issue of new shares by a going concern. The reason for not issuing them at a premium is not at all clear to me. It is probably true that, in a relatively thin and small market, such as the share markets in India, pricing of new shares might have to be conservative, i.e., err on the low side, to assure subscription, but this does not justify premiums in the market of 50 per cent. and more within days after issuance. The issuing company should "appropriate" the bulk of this "profit." How can this be done? First of all, it should be pointed out that the question of sale of shares at premiums revolves largely around legal fictions. Suppose a share is sold at Rs. 100 with a par value of Rs. 100 while another share is sold at a par value of Rs. 50 and a premium of Rs. 50. The company has raised Rs. 100 of equity capital per shareholder. The only differences now arise out of the fact that the capital accounts of the two companies look different. In one case, the entire capital is represented by shares. In the other case, half of the capital is represented by shares and the other half is represented by paid-in surplus, or premium on shares or some such account, which also represents shareholders' equity. To the extent that legal provisions restrict or provide for a more liberal use of surplus accounts than the share accounts, the discretionary power of management on how to employ the equity funds of the company may be restricted or liberalised. Similarly, the *nominal* rate of earnings and dividends will now be different given the practice of quoting dividends as a percentage of nominal value. Suppose in the above illustration a dividend of Rs. 5 is declared (dividends per share, incidentally, is the customary way of reporting dividends in the U.S.). In one case, the dividend then would be called a dividend of 5 per cent. while, in the other, it would be 10 per cent. on the nominal value of the shares, though, in both cases, it would be a yield of 5 per cent. on the initial investment of Rs. 100.

The problem is, however, more complicated. While this is not the place to explore all the ramifications of this problem, at least one major implication needs to be explored. Suppose a company issues 1,000 shares at Rs. 10, thus raising Rs. 10,000 and finds that these shares sell immediately at a premium of Rs. 5, i.e., 50 per cent. Had the company realised this, it could have, under the above proposal, sold these shares for Rs. 15 a piece, either at a nominal value of Rs. 15 or, the law permitting, at a premium of Rs. 5. Such a procedure might have reduced the demand slightly but probably not substantially since people who were buying these shares in the market for Rs. 15 (after issuance at Rs. 10) then simply would have bought from the company directly. There is one complication, however, selling 1,000 shares at Rs. 15 instead of Rs. 10 raises, of course, an additional Rs. 5,000 of equity capital. This additional capital would permit the setting up of additional reserves or more likely a change in the rest of the financial structure of the new company, e.g., it might obviate or reduce the need for bank loans. This, incidentally, also might affect the amount the promoters who would want to retain, say, 25 per cent. of the voting capital of the company, would have to put in.

There are other ways, however, in which this might be handled. It might be argued, but erroneously in my view, that this increase in equity financing could be eliminated by simply reducing the number of shares proportionately; i.e., issuing 666 shares at Rs. 15, instead of 1,000 at Rs. 10. This, however, would not solve the problem. With the smaller number of shares, a premium of approximately Rs. 7.50 would appear. Why? Suppose investors expect a yield of 10 per cent. This means that, when the company was initially capitalised (equity capital) at Rs. 10,000 obtained with 1,000 shares at Rs. 10, the investing public expected the company to be able to earn (and pay out) 15 per cent. of its nominal capital, i.e., a total profit of Rs. 1,500, or Rs. 1.50 per share, or a 10 per cent. yield on the price paid by the investor in the market (Rs. 15). Issuance of the shares at Rs. 15 might have some effect on these expectations as the financial structure of the company is affected and may raise as well as lower the expectations of total profit. While I would expect the former, I do not want to pursue this problem further, but simply continue to assume that the company will be expected to make (and pay out) a profit of Rs. 1,500. If the company, as suggested above, would sell 666 shares at Rs. 15 (to raise only Rs. 10,000) and continue to make a total profit Rs. 1,500 or Rs. 2.25 per share, the price in the market would, given the expectation of a 10 per cent. yield, rise to Rs. 22.50 or a premium over the original sales price of Rs. 7.50. In other words, this new enterprise is expected to make (and pay out) a profit of Rs. 1,500 and, given the fact that investors expect to receive a yield of 10 per cent., they are willing to pay a total of Rs. 15,000 regardless of how the shares are divided up. This is the essential thing to keep in mind. Since the public is willing to pay Rs. 15,000 for the expected profits of the company, why take less and let brokers or someone else make substantial profits?

I realise that the company will probably not be able to absorb the full amount of this "surplus." There are imperfections in the market resulting from imperfect knowledge and traditions. Furthermore, even though the price rises to substantial premiums because *some* buyers are willing to pay the higher price, the total demand at the higher price might be less than the number of shares bought at the higher price *plus* the shares bought at the lower (issue) price but held (not sold) at the higher price. Yet the basic fact remains that, under the present system, new companies are not capitalising expected profits to their best advantage.

Public Policy

I want to discuss public policy vis-a-vis the private sector from the point of view of Government policy and public attitudes. The somewhat ambivalent—or so it seems to me—attitude of Government towards private enterprise is reflected in the ambiguity of the objective of a "socialist pattern of society." To comment on this is particularly difficult for an outsider like myself, but it is of such importance that some comments are called for. My observations lead me to believe that, in some ways, this objective is more a political slogan than an economic reality. This overdichotomises the issue but is nonetheless relevant in terms of emphasis. It is unfortunate, I believe, that this slogan, important as it no doubt is in the domestic Indian context, has tended to give a completely erroneous impression of the state of private enterprise in the Indian economy. This phrase, which probably intentionally avoids the term socialism, suggests to the potential foreign investor that socialism rules the Indian economy.

Many potential foreign investors are, for instance, not aware of the very good record India has on making foreign exchange available for the remittance of profits and repatriation of capital if the initial investment has been sanctioned by Government; nor is it realised that private enterprise has been nationalised in only a very few instances or that the danger of such nationalisation seems to be very limited in the immediate future. It is true, of course, that the relative role of the public sector has been increasing during the last ten years and is likely to increase in the foreseeable future. Nevertheless, the private sector performs a very large role at the present time, and it must continue to do so in the foreseeable future.

A brief look at this situation regarding the relative position of private enterprise is revealing. The percentage of private investment to total investment has been falling from the first to the second Plan from approximately 54 to 46 and in the third Plan it is scheduled to fall further to about 40. At the same time, the absolute level of private investment continues to rise sharply. In evaluating the role played by the private sector, it must be remembered that large chunks of the public-sector investment are in areas which, given the present structure of the economy, are inevitably in the public sector such as major multiple-purpose river developments, transport (railroads) and communications, etc. Furthermore, another large part of the public investment is in the steel industry. This means that the public investment, being very unevenly distributed throughout the economy, is relatively much less significant than the aggregate would suggest in most areas of the economy. It is worth remembering that of the total national income produced, 90 per cent. is produced in the private sector. Even if we exclude agriculture from this figure, we get a figure probably in excess of 80 per cent.* This means that the private sector, even at the present rate of growth of the public sector, will continue to play a very large, if not dominant role, in the Indian economy for a long time to come.

The private sector activity is subject to various restrictions, many of which need to be streamlined, but it is also true that a large part of the jungle of regulations is not specifically designed to restrict the private sector. Public sector enterprises are subject to many of the same regulations. I have heard many allegations that, in some of these regulations, public enterprise receives favoured treatment over private enterprise. Discrimination in these matters is hard to establish. Managers of public enterprises have often voiced their concern over burdensome regulations as much, in some cases more so, as managers of private enterprises. There is one added difficulty in evaluating discrimination in favour of public enterprises. Almost by definition, public enterprises are established only in a few key industries, specified in the Industrial Policy Statement as the exclusive domain of the public sector, or in such other key enterprises where the private sector is not developing rapidly enough. This automatically establishes public enterprises as projects with a high priority.

A phrase such as socialist pattern of society is eminently suited to the essentially pragmatic approach and there seems to be dogmatic overtones to the public sector-private controversy, the efforts at establishing a more egalitarian society and the differing views prevailing in the highest circles on how far and how fast to move with reforms. The misinterpretations to which its use have given rise abroad may well be the inevitable price of a a non-doctrinaire approach to planning.

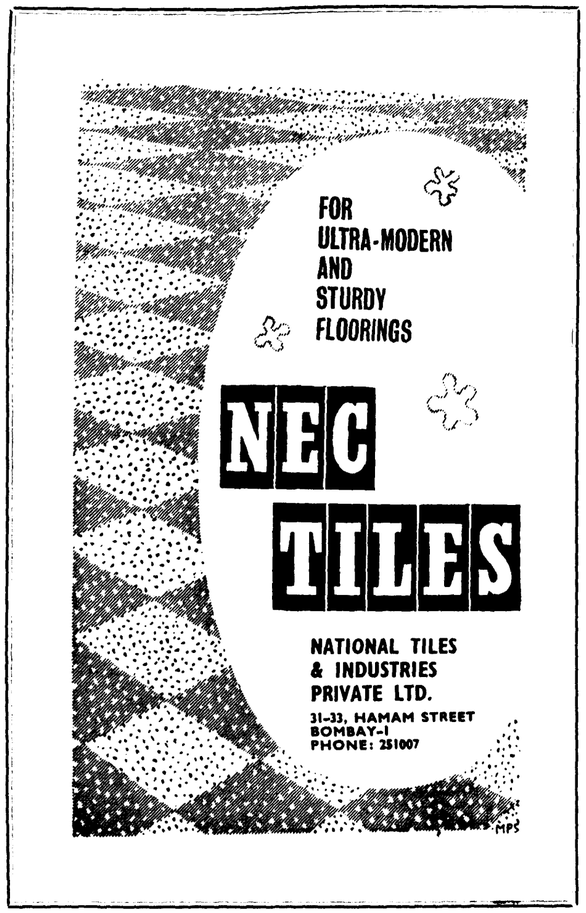
In discussing the issues involving the role of the private sector in India, one cannot help but be struck by an underlying public apprehension of, if not hostility towards, the motives of businessmen. This has been true to some extent throughout the ages and throughout the world. In 1776, Adam Smith, the spokesmen *par excellence* of the *laissez faire* economics, in his famous *Wealth of Nations*, one of the most important and ardent pleas for the virtues of free enterprise, warns that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." A certain scepticism as a guard against abuses is always healthy, but the hostile attitude to private enterprise in India has some special causes which make them more serious. I suspect that one of the reasons is the fact that "big business" until recently was largely identified with the British and, therefore, in the popular mind "exploitation" by the imperial power and exploitation by business interests are largely synonymous. Sharp practices of local merchants, and, especially, moneylenders reinforce these prejudices. During the war and in the immediate post-war period, black-marketing apparently was widespread. This further confirmed some of the worst suspicions of the popular mind. One cannot help but feel in visiting India that business ethics often leave something to be desired. The three most obvious problems I have run across are: dishonest practices on the part of shopkeepers, apparent dishonesty in paying taxes (the extent of this is not clear, however), and bribery at the lower echelons of Government and probably private enterprises. One hears allegations of the same at the higher levels of Government but it is not clear, if they are true. Even if not true, the fact that the allegations receive such wide credence is a sign of widespread suspicions. Dishonesty in Government is relevant here, of course, because the giver of a bribe is as guilty as the taker. I believe these problems are relevant here, since public attitudes toward private enterprise will play an important part in shaping public policy. If private enterprise is to play its part in the economic growth of India, a proper "climate" must exist. It is the responsibility of private enterprise to put its best foot forward.

Conclusion

My comments have tried to call attention to some of the difficulties of evaluating the relative performance of the public and private sectors in the Indian economy. It seems obvious that the private sector will continue to be controlled to a certain extent. The policy of at least overall planning, giving directions to the development of new and the expansion of old enterprises seems to be inevitable. Similarly, the private sector plays and must continue to play an important role in the economic growth of India. This means, on the one hand, that Government must be careful when, in pursuing a policy of establishing "a socialist pattern of society," it does not create conditions which make it impossible for the private sector to make its essential contribution to the growth of the economy. On the other hand, it also means that businessmen must realise that the public sector of the economy will continue to grow and Government is unlikely to abandon its basic policy of achieving "a socialist pattern of society." The private sector can be helpful in assuring that this objective will not be interpreted in any extreme or doctrinaire way. *This implies that the private sector in turn does not become doctrinaire in its approach to economic problems.* In advocating reforms, changes in tax laws, etc., it is important to keep this in mind. If the private sector spokesmen reflect an attitude which make them appear doctrinaire, *all* of their counsel will be suspect and they will be less effective in shaping India's future in the direction of what in America has long since become recognised as a mixed economy. In the United States, we do not have or move in the direction of a "pure" form of capitalism but a form of mixed enterprise. This leaves unanswered the important matter of emphasis. It is highly doubtful if India can or should copy the American "model" of mixed enterprise, just as India cannot and should not copy the "model" of any other society. To try and preserve the advantages of a free enterprise system, curb its abuses, and adapt it to the social, political, and economic ambitions of India under the particular circumstances in which the Indian economy finds itself in the second half of the twentieth century is the great challenge to the private sector of achieving for India the progressive democratic society to which she aspires.

*By way of a footnote, I should add here that a comparable and equally dangerous situation exists in the universities. At the better universities, the very few students who receive first division degrees would be top calibre students anywhere. Similarly, a few of the second division students would compare favourably with good students elsewhere. The quality of pass students generally is deplorable, to say the least. A look at almost any examination result of the better universities reveals a most unfortunate distribution. Not only is the bulk—I don't think 75 per cent. would be too far off the mark—of the graduates generally in this third division but an equally large number fails to reach even this low standard. The gigantic waste of resources which results is one which India can ill afford.

*It should be noted that the net output of the private sector as a percentage of net domestic product has fallen in the ten-year period from 1948-49 to 1957-58 from 92.6 per cent. to 89.7 per cent. Source: Government of India, Central Statistical Organisation, Cabinet Secretariat, *Estimates of National Income* 1948-49 to 1958-59, New Delhi, 1960, p. 5 and est. from pp. 2-5.



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PROSPECTS FOR INVESTORS

Upward Trend May Well Continue

By GEORGE CARVELHO

IT is likely that the end of 1960 will leave investors on the whole somewhat better off than at its start. The Reserve Bank's index number of variable dividend industrial securities, with 1952-53 as base equals 100, stood at mid-November 1960, at about 170, as against 160 at the end of December 1959. This modest advance might have satisfied, if not enthused, investors, were it not for the fact that, in the first seven months of the year, share prices were almost continuously on the rise, taking the index to nearly 182. Thereafter, from the beginning of August, there was a sharp break and, by mid-October, the index was down to 165. The slight improvement that has occurred since then suggests that, while the worst is over, it is unlikely that the gains of the earlier period will be recovered for some considerable time to come. At the beginning of December, when this is being written, the market appears to have settled into a state of quiescence, with no discernible trend either way.

A little more than half the gains of the rising phase has been wiped out, but this should not obscure the real, if modest, advance over the eleven months of 1960. The fact that the end of the bull market did not result in an even steeper fall in prices suggests that, inherently, the economy is sound and that basic economic realities can be relied on to cushion any further bearish tendency. Speculative overtrading had pushed prices up unduly and a corrective reaction was necessary. This has now been accomplished and it would be fair to say that the prevailing level of prices reflects, in most cases, the correct assessment of present position and prospects.

Trend At A Glance

Investors, as distinct from speculators, are interested in the long-term trends, over a period of years, rather than in movements from day to day or week to week or even from month to month. The following table, showing the changes in the index of ordinary shares over the past eight years, is instructive in this connection:

Index of Variable Dividend Security Prices

	(Base : 1949-50=100)	Increase over preceding year
1953-54	102.6	2.6%
1954-55	115.8	12.8%
1955-56	124.6	7.5%
		Decrease over preceding year
1956-57	109.2	12.3%
1957-58	97.9	10.3%
	(Base : 1952-53=100)	
1957-58	126.6	....
		Increase over preceding year
1958-59	146.8	15.9%
1959-60	161.7	10.1%

The period from 1952-53 to 1957-58 is made up of two distinct parts. During the first three years, up to 1955-56, share prices, on the whole, were moving up, the gain over these years being nearly 25 per cent. The next two years were disastrous for investors. Not only were all the gains wiped out, by 1957-58, investors on the whole were about 2 per cent. poorer than in 1952-53. Since then, the change is remarkable. Starting from 1957-58, the index has moved up, so that at the present figure of 170, the advance over the two years 1958-59, 1959-60 and the first eight months of 1960-61 is about 34 per cent. Capital appreciation of this order should more than satisfy every reasonable investor. It amply justifies the claim that equities serve as an excellent hedge against inflation. The index number of wholesale prices, with the same base 1952-53=100, stood at 106.1 in 1957-58 and at 120.8 for the week ended 12th November 1960. These estimates take no account of the fact that, in addition to such capital gains, investors have received a return from their holdings, over these years.

Cause for Moderate Optimism

The question that perplexes investors is whether the long-term trend towards higher share prices, discernible since 1957-58, can be expected to continue in coming years. While, in the very nature of things, one cannot be definite on this matter, there is a reasonable probability that it will. One must be prepared for temporary setbacks in a market where speculators rather than genuine investors call the tune. The boom and slump of 1960 are instructive in this connection. They drive home the important lesson that the investor needs to be circumspect and discriminating and should resist the temptation to follow blindly in the wake of speculators in the hope of getting rich quick. If such allurements can be resisted and long-term prospects rather than immediate gains are the guiding consideration, the investor in India ought to be able to do reasonably well for himself in the next few years.

This moderately optimistic assessment of the investment outlook is subject to qualifications. It assumes that there will be no major upheaval, political, economic, or for that matter natural. It presumes that the process of planned economic development will continue to be implemented by a Government based on parliamentary democracy. An expanding economy such as this, on which some Rs. 2,000 crores a year will be invested during the third Five-year Plan beginning in 1961-62, may be expected to grow in industrial capacity at a rate that should prove highly profitable to investors. This confidence in the economic future of the country was evident in the boom in new issues that was the most outstanding feature of the investment scene in 1960. Indian *entrepreneurs*, almost without exception, are engaged in expanding and diversifying existing enterprises and initiating new ones, in most cases with foreign collaboration. Industrialisation is going ahead, in both the public and private sectors, at a pace that bids fair to transform the face of the country in the space of a few years. Never before has the Indian business community been so aware of the existence of profitable investment opportunities or so eager to seize them.

New Issues

The spate of new issues was a reflection of this feverish rush towards industrialisation. To the extent that it was a reflection of confidence in the future of the economy, it was healthy and welcome. It created difficulties and necessitated regulation only because of the overwhelming response of investors to every new issue, irrespective of its intrinsic worth. Indian capital has lost its traditional shyness and now displays a rashness that is equally a sign of economic immaturity. Again, speculators led the way and investors followed in their wake. In most cases, speculators unloaded at a high premium, while investors were left holding scrips which could not possibly yield any dividend for several years. On any cool-headed assessment of the growth prospects of most new issues, in comparison with the current and prospective return and capital appreciation prospects of established concerns engaged in expansion, there can be no doubt that the fantastic oversubscription of new issues and the extraordinary premiums on such scrips could not be justified.

There are already signs that the craze for new issues is waning. Investors are still ready to take up shares of first-rate concerns with good prospects, but they are clearly more discriminating than they were earlier in the year. The recently announced proposals for checking malpractices in new issues, such as restrictions on the expenses of promotion and on the time within which allotments and refunds must be made, are welcome. But, in the last resort, no legislation can be a substitute for the exercise of sound judgment by the investor himself.

Foreign Help

Another notable feature of 1960 was the success of Indian *entrepreneurs* in finding foreign collaborators in their ventures. It is likely that the flow of foreign private capital into India in 1960 will be found to be substantially more than in previous years. From April to October 1960, the Government of India approved 228 agreements between Indian and foreign business men for the manufacture of a variety of items. Of these 80 were with the U.K., 41 with West Germany, 35 with the U.S., 23 with Japan and 49 with other countries. The following is a list of some important new issues made in 1960, involving foreign collaboration:

Name of company	*Name and country of collaborators*
Premier Tyres	Dayton Rubber Co., U.S.A.
Hindusthan Aluminium ...	Kaiser Aluminium and Chemical Corporation, U.S.A.
Mysore Cement	Kaiser Engineers and Overseas Corporation, U.S.A.
Phillips Carbon Black ...	Phillips Petroleum Company, U.S.A.
Synthetics and Chemicals ...	The Firestone Tire and Rubber Company, U.S.A.
Hindusthan Twyfords ...	Twyfords Ltd., U.K.
Seshasayee Paper	Parsons Whittemore South Asia Co. Inc., U.S.A.
General Tyres	Technoexport Foreign Trade Corporation, Czechoslovakia.
Premier Fertilisers ...	Chemieban Dr. A. Zieren G.M.B.H., Germany.
Isaac Holdens (India) Ltd.	Isaac Holden & Sons Ltd., U.K.

The 1960 boom, both in existing scrips and in new issues, was powered, to a large extent, by the savings of the rapidly growing number of middle-class investors. This steady widening of the investor class as a result of the spread of the investment habit is one of the most significant developments, from the point of view of the future of private enterprise in India. It means that investment, instead of being the preoccupation of a small group of wealthy persons, as it was in the past, is now the concern of many thousands of salary-earning office workers and the managerial and executive class which is growing up to meet the demand for such services in the developing economy. These people, representing some of the most dynamic and progressive elements in Indian society, are turning away from the traditional stores of value, gold and landed property, and look increasingly to equities as profitable outlets for their savings. Here is a great and potentially enormous source of finance for private investment.

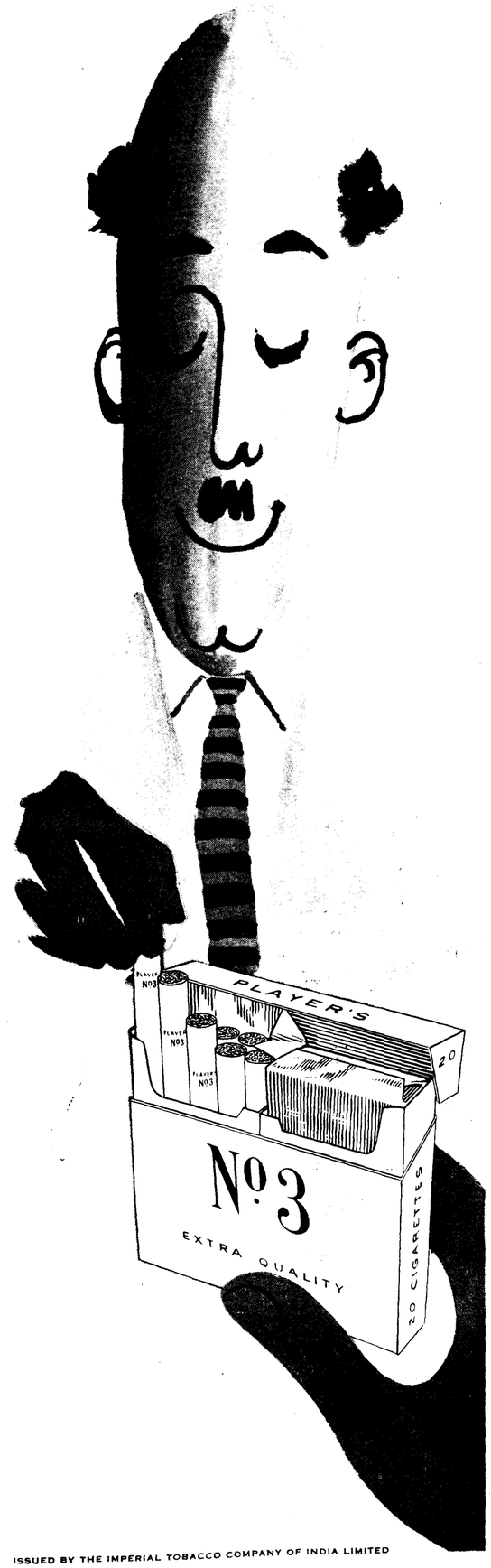
There are indications, though much less than the situation calls for, of increasing awareness of the importance of the little man as a stock market investor. Strangely, it is the Government and official agencies such as the Reserve Bank that seem more active in this matter than stock exchanges and other private sector organisations. The October number of the *Reserve Bank Bulletin* includes a study of the organisation and working of investment trusts and unit trusts in other countries and urges the setting up of similar bodies in India, in order to channel the savings of the middle and low income group into productive investment. It is also reported that Mr. Asoka Mehta, the P.S.P. leader, has, at Mr. Nehru's instance, drawn up a scheme for a National Investment Trust aimed at bringing investment opportunities within the reach of the common man. It is earnestly to be hoped that these schemes will be actively followed up, so that India may move towards the ideal of a shareholders' democracy, in which every man will be a capitalist. Yet another instance of the Government's awareness of the importance of private investment is the proposal emanating from a committee headed by Mr. D. L. Mazumdar of the Department of Company Law Administration, that 25 per cent. of the capital of certain selected public sector enterprises should be offered for subscription to private investors. It has been recognised that the private investor has no stomach for Government securities and greatly prefers equities, with their chances of high return and growth. It remains to be seen whether enterprises in the public sector can offer similar attractions.

Outlook for 1961

With regard to the investment prospects for 1961, there can be no doubt that the basic expansionary influences, which have been responsible for the overall upward trend of share prices during the past three years, will continue and even gather strength. Rising development expenditure will, at the same time, widen the market for industrial products and create the incomes and investible resources for further growth. It is fairly certain that inflation will continue, in spite of monetary and other restraints. The search for a hedge against inflation will, therefore, continue and equities are coming to be regarded as superior to gold for this purpose. The Government's attitude towards the private sector has been more accommodating recently, as shown by the readiness to allow more fertiliser factories to be set up by private enterprise and the recent concessions in the coal industry, allowing extensions of working, even in non-contiguous areas. Agricultural production shows signs of increasing and fear of food shortage has receded, as a result of the P.L. 480 agreement with the U.S., for the supply of 17 million tons of foodgrains over a period of four years

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Industrial production for the first five months of 1960 was, on the average, 13 per cent. higher than in the corresponding period of 1959 and it is likely that the increase has been maintained in subsequent months. Most industries, with exceptions like jute and cotton textiles, which are experiencing special difficulties, are doing well and recent balance-sheets of some outstanding companies. Associated Cement Companies and Belapur Sugar, for instance, have been such as to gladden the hearts of shareholders.

Credit Curbs

A matter that caused investors some anxiety during 1960 was the Reserve Bank's credit curbs. In its anxiety to restrain inflation and check excessive speculation, the Bank has resorted to general as well as selective controls. These included the impounding of increases in bank deposits, the prescription of a 50 per cent. margin for advances against stock exchange securities, prohibition of direct financing of *budla* transactions by banks and limitations on clear or unsecured advances. A novel three-tier Bank rate system came into effect on 1st October, under which differential rates were laid down for scheduled bank borrowing from the Reserve Bank, up to a prescribed quota at the official Bank rate of 4 per cent. beyond the quota and up to double it at 1 per cent. above Bank rate and over double the quota at 2 per cent. above Bank rate. In addition, scheduled banks were directed to increase lending rates and to limit rates on certain very short-term deposits.

There is no reason to believe that the monetary restraints imposed by the Reserve Bank will adversely affect investment prospects. Experience in 1960 has shown that the stock market depends very little on bank credit. To the extent to which such measures will succeed in their object of restraining inflation, they are to be welcomed, for monetary stability is one of the conditions for the healthy expansion of investment. The relaxation of the deposit impounding scheme announced on 11th November shows that dear money will not be pressed to the point at which it will hinder the growth of production.

Clouds Are There

All this does not mean that there are no clouds on the investment horizon. One of the biggest uncertainties relates to the likelihood of a steep increase in taxation in the next budget. The third Five-year Plan requires imposition of additional taxation to the extent of Rs. 1,650 crores during the Plan period. It is evident that a beginning will have to be made in 1961-62, which will be the first year of the third Plan, towards the raising of this huge amount. The magnitude of this task can be realised, when it is remembered that, even with the tremendous effort represented by the Krishnamachari Budget, the total amount secured through additional taxation during the second Five-year Plan was only Rs. 1,000 crores. The difficulty of securing additional tax revenue of the order contemplated is greater, now that virtually every conceivable direct tax has been imposed and has reached the point of diminishing returns. The most that investors can hope is that the brunt of further taxation will fall on commodities, though even indirect taxation can have serious adverse effects on profitability of industries.

A further consideration is that, with the approach of the General Elections in 1962, the party in power may feel the need for some dramatic gestures of a socialist character, calculated to steal the thunder of the Opposition parties. This may find expression in the budget proposals for 1961-62. On the other hand, the opposition of the Government to the proposal for banning of contributions by companies to political parties, is a reminder that the Congress depends heavily on the business community for financial support and would be reluctant to alienate the sympathies of this group just at the time when contributions would be needed most. It is instructive, in this connection, to look back at the 1957 General Elections. The budget for 1956-57 no doubt introduced the capital gains tax, but it was a relatively mild affair, as compared with the epoch-making 1957-58 budget introduced by Mr. Krishnamachari after the General Elections were won and the Congress was firmly in the saddle for another five-year term. If similar tactics are adopted this time, it looks as if there is no cause for alarm for some time to come. The budget to be dreaded, in that case, would be the one likely to be introduced about May 1962.

External Finance

Another element of uncertainty relates to the old problem of external finance for the Plan. Of the Rs. 2,000 crores and more of foreign aid needed, only a small fraction is so far in sight. Not much room for import cuts remains and exports show no signs of increasing to any significant extent. Mr. Kennedy's victory in the U.S. Presidential election has no doubt improved India's prospects of obtaining generous aid and the President-elect's determination to make India "the show-piece of democracy" is heartening. But the U.S. is currently running a balance of payments deficit and is trying to devise ways of checking the drain of gold. At a time when there is talk of a European loan to strengthen the dollar, conditions cannot be considered propitious for the grant of substantial U.S. aid for economic development in India. In the meantime, India's foreign exchange reserves are down to Rs. 141 crores, leaving a very slender margin over the statutory currency reserve requirements. It does not all add up to an encouraging picture.

Other uncertainties relate to the Chinese border threat, the still smouldering disputes with Pakistan over Kashmir and other matters, the growing menace of provincialism and linguism within India and the renewed interest of the authorities in the degree of economic inequality and concentration of economic power, as reflected in the appointment of the Mahalanobis Committee to study the distribution of the increase in national income in the two Five-year Plans.

On the whole, the investment outlook is, as always, an intermixture of light and shade and it would be rash to attempt anything in the nature of a forecast. The year that is drawing to a close has confounded the prophets, for few could have guessed, at the beginning of the year, the extent of the rise or fall that it would bring. However, since investors must, of necessity, base their operations on some estimate of the future, perhaps they would not be far wrong if they assumed that the upward trend of share prices, witnessed in the past three years will continue, though the progress may be interrupted and reversed from time to time.

REFLECTIONS ON OUR ECONOMIC PROGRESS

(*Concluded from page 36*)

namely, Government, employers and workers in both the public and private sectors.

I would suggest that the chambers of commerce should have, under their ægis, as in other advanced countries, technical and expert guidance bureaus, which could study problems of business, promote and implement the different suggestions and policies and formulate programmes, which various industries should undertake. They have a distinct role to play in the great national endeavour by propagating the various policies of the Government to businessmen and also in stressing the view that those who possess the capital and manage their own industries are not only guardians of the business interest but also custodians of the trust, which the general community has reposed in them, and of the national wealth. They should devote their experience, energy and enterprise to the realisation of the greatest welfare for the whole of mankind.

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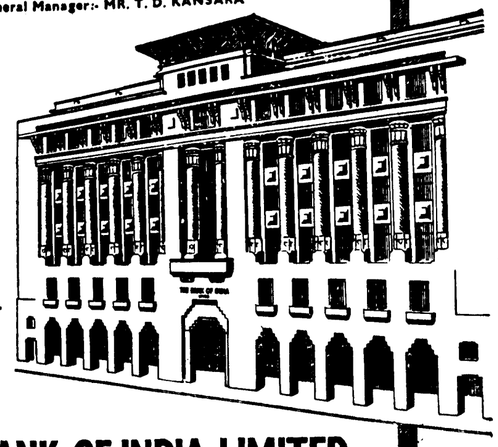
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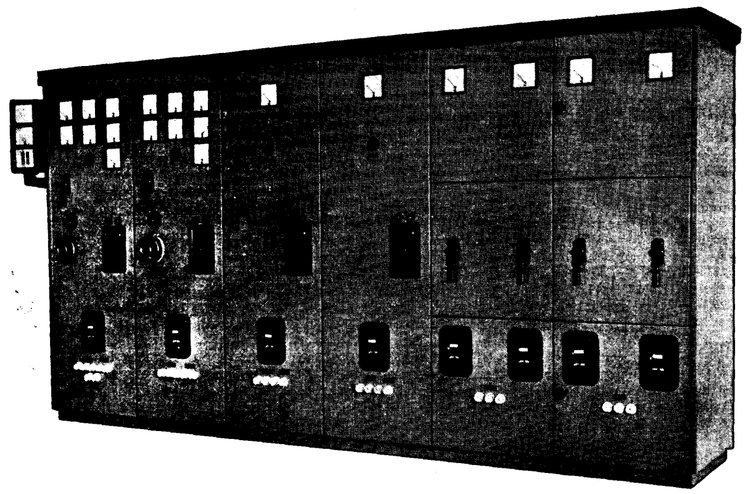
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Significance of Broader Shareownership

Desire To Own Securities Growing All Over The World

By G. KEITH FUNSTON

PRESIDENT, NEW YORK STOCK EXCHANGE

IN a letter to me several months ago, Mr. S. V. Rayan, Editor of *Commerce*, remarks that there has been a tremendous growth in small investors in India, that some new equity issues have been heavily oversubscribed and that, in general, the climate is favourable for spreading ownership of industries among more people.

Comments like these, and the words of other leading journalists, are prompting the world investment community to regard India with warm attention. For in India, and indeed in many other countries, signs of economic buoyancy are being accompanied by a broadening of the shareownership base. Thus, we find that not only are new sources of capital being tapped which will help build tomorrow's plants, but, through stock ownership, more people are able to satisfy the age-old desire to share some direct interest in the tools of production. Equally important in today's world is the picture of a free man, deciding what he wants to do with his savings. This offers men everywhere a happy alternative to the Communist method of capital formation by Government and by compulsion.

A World-wide Trend

To help gauge how this trend is accelerating around the world, the stock exchange has been assembling for some time whatever data is available from various nations.

We find in Japan, for example, that there are now some 3 million shareowners, about 5½ times the 1945 total.

In Australia, the public's participation in the stock market has become sufficiently active, so that continuous auction markets are replacing the stock exchange's older call markets. Brokers have begun to advertise. And, at least, two versions of the New York Stock Exchange's Monthly Investment Plan have been developed, so that people of average means can invest regularly on a pay-as-you-go basis.

In Europe, West Germany now has almost one million shareholders, or about 100 per cent. more than in 1958—an increase that can be ascribed to two factors: shares in several internationally famous German companies have recently been made available for public sale; and mutual funds have shown a spectacular rise in popularity. Sixty per cent. of West Germany's investors are industrial workers, white collar employees and housewives.

In France, where savings were so long kept hidden, there are now more than two million shareowners —and the number is growing rapidly.

In the Netherlands, a Foundation for broadening shareownership has been set up by the Amsterdam Stock Exchange in co-operation with some of the foremost Dutch corporations. In the United Kingdom, a few months ago, a new World Federation of Investment Clubs was established.

The desire to own securities has also extended to Africa. To take advantage of a recent stock issue in a Liberian iron ore company, one minor Government official reportedly walked for two days and nights through the forests to file a purchase application. And farmers, labourers, clerks and merchants lined up by the hundred to oversubscribe the issue.

Such incidents have meaning not only in their economic impact. They also illustrate the deep-rooted psychological appeal of private ownership. This explains why the gradual spread of shareownership throughout the free world is among the more noteworthy developments of our time.

The extent of this movement towards mass investment is a source of quiet satisfaction at the New York Stock Exhange. We had a hand in pioneering it. The story began in the United States in the early 1950's, with a modest effort by the Stock Exchange, its member-firms and listed companies to tell people about the opportunities, risks and rewards of investing. By 1959, the number of Americans owning common stocks had jumped to 12½ million—a gain of almost 100 per cent. in seven years. And today some 13 million non-shareowners report they are on the threshold of investing. Moreover, the overwhelming majority of present investors has long-term objectives. They seek sound advice. They exemplify the growing American belief that both the individual and the economy can be served most effectively when more and more people have more and more opportunity to invest.

All this has exerted an influence upon attitudes in other lands. And it may well be that, in this feature of a People's Capitalism, the Free World can find something more than just an ideological deterrent to Communism. It can find—it has already found, in many places—a cogent endorsement of faith in free enterprise—in its vitality, and in its capacity to adapt to change.

But this alone does not entirely explain why business and Government leaders in the free world are generally eager to spur shareownership. They also see that needs for new capital will be prodigious over the coming decade. They see that an ever-growing number of investors can provide a broader base for economic expansion.

And, finally, they see that, as the shareowner studies the operations of his company, he gains fresh insight into the problems of competitive enterprise and the responsibilities of mangement.

I must confess that I have spoken of shareownership developments around the world for a specific reason. I believe that, as international economic relations assume new dimensions, there are steps that stock exchanges, Governments and companies can take to accelerate mass investment.

Our experiences with stock exchanges around the globe offer a case in point. They are steadily enlarging their services to meet the needs of a much wider investing public. They are doing this only after the most painstaking self-appraisal and preparation—and they should be encouraged. We at the New York Stock Exchange, for instance, welcome the opportunity to assist other exchanges in technical matters which constantly arise. Recently, one of our executives spent two weeks in Buenos Aires conferring at their request with exchange officials on technical problems stemming from the surge in market activity. He was able to offer a number of constructive proposals.

Also, we have been able to assist other exchanges in educational efforts designed to help the public better understand the investment process. A number of stock exchanges, incidentally—in Britain, Australia, Latin America and in India—have adopted for their own use a counterpart of our theme, "Own your share of American business."

I think it is certainly significant that one of the first things some of Africa's newly-independent States desire is to set up their own stock exchange facilities. This is a heartening indication of how eager these nations are to build a free society by using the methods of a free economy.

A Qualification

In mentioning Africa and other underdeveloped areas, let me emphasise that it is often quite premature to speak of any immediate shareownership goals. But, in these countries, the free world does face an immediate and separate challenge. It is to earn understanding and support for the basic economics of freedom. Such support must be earned now, and quickly. This is a problem we can neither evade nor ignore nor postpone. These countries most often require responsible private investment from abroad now. Shareownership at home hopefully will develop later. But I emphasise the word "later"—for the underdeveloped nations are not necessarily prepared, at this time, for a broad shareowner society.

In more industrially-advanced countries, however, the story is quite different. There is much that can be done to advance the aims of mass investment—and Governments can play a properly constructive role in encouraging this process. Perhaps, the most important thing they can do is to help make more common stock available to the public.

In this connection, a top priority could well be assigned to encouraging Governments to divest themselves, ultimately, of the ownership of industry—and turning it back to the more creative and productive hands of private enterprise. To an encouraging degree this has been happening.

Britain's steel industry, nationalised after World War II, has been almost completely returned to private ownership. In Germany, the Government recently sold its own shares in a large industrial combine to 200,000 individual investors. And next year, 60 per cent. of the shares of the Government-owned Volkswagen company will be offered to the public. This is expected to *double* the country's shareowner population. In Argentina, similar developments are under way.

An additional roadblock is that Governments in some countries

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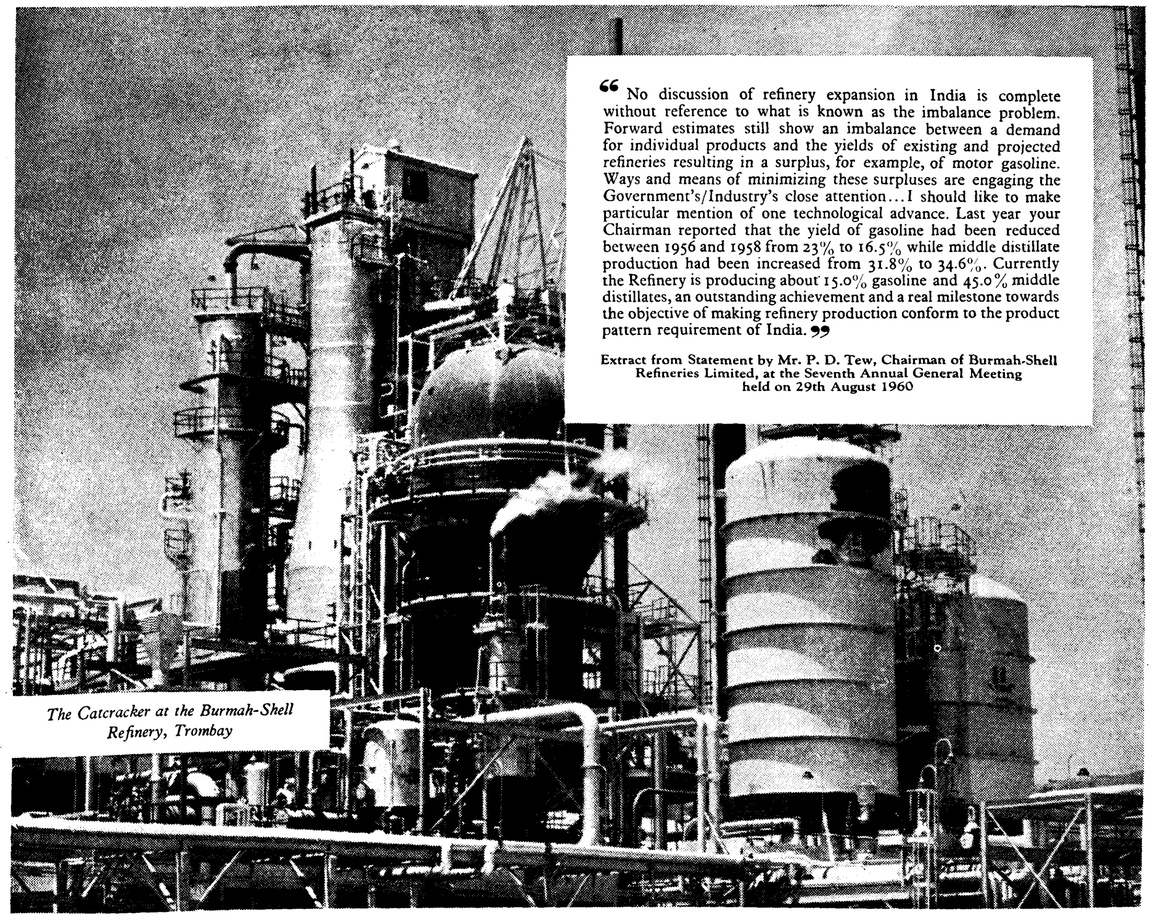
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The Catcracker at the Burmah-Shell Refinery, Trombay

"No discussion of refinery expansion in India is complete without reference to what is known as the imbalance problem. Forward estimates still show an imbalance between a demand for individual products and the yields of existing and projected refineries resulting in a surplus, for example, of motor gasoline. Ways and means of minimizing these surpluses are engaging the Government's/Industry's close attention... I should like to make particular mention of one technological advance. Last year your Chairman reported that the yield of gasoline had been reduced between 1956 and 1958 from 23% to 16.5% while middle distillate production had been increased from 31.8% to 34.6%. Currently the Refinery is producing about 15.0% gasoline and 45.0% middle distillates, an outstanding achievement and a real milestone towards the objective of making refinery production conform to the product pattern requirement of India."

Extract from Statement by Mr. P. D. Tew, Chairman of Burmah-Shell Refineries Limited, at the Seventh Annual General Meeting held on 29th August 1960

presently insist that a minimum par value be placed on new shares —a minimum which is altogether too high to attract the average investor. Certainly, Governments can lower that minimum to a point that will interest new investors in ever greater numbers. Germany is doing this. Switzerland is considering it. Perhaps, other countries will follow.

Tax Policies

Moreover, Governments can stimulate the incentive to invest by updating tax policies to meet the growth requirements of the 1960's. Throughout the free world, we find an extraordinary paradox. On the one hand, there is an urgent demand for growth capital—billions of dollars every year. On the other hand, there are tax structures which seem as though they were expressly designed to discourage people from investing.

Lest I be accused of fingerpointing, let me say that the United States, in this regard, offers no particular inspiration to the rest of the world. In fact, in such crucial areas as the capital gains tax and the double tax on dividends, we belong to that unenviable minority of countries which, in tax matters, is trying to walk backwards into the future. If, for instance, the investor now locked in by the 25 per cent. capital gains levy is granted some relief, is he not more likely to earmark some of the released funds for the newer risk ventures the free world needs? Should not such an investor, who can best afford such a risk, be encouraged to undertake it?

A final point we can ask of Government is an investment climate that encourages the movement of capital where it is needed, when it is needed, in all parts of the free world. This can be achieved by removing arbitrary exchange rates and withdrawal of restrictions which only create uncertainty, and repel overseas investment.

Spectre of Expropriation

Even more destructive, of course —and a subject about which too little outrage has been expressed in recent months—is the spectre of expropriation, either outright or "creeping."

On this count, the Castro regime's seizures of foreign enterprises are a flagrant violation of international economic morality. The shock waves of these acts are likely to be felt for years. Even now, they are prompting serious second thoughts about the wisdom of new foreign investments, particularly investments in those underdeveloped countries which need them most. If these countries are to press forward with their own programmes for economic advancement, they must be able to appeal to responsible, enlightened private investors. Will such funds be forthcoming? At this stage, we obviously don't know. But it is tragic that, in this day of economic interdependence, Cuba's action may retard economic growth far beyond her own borders.

Cuba's conduct is also a body blow to the individual investor, large, small or medium, whose willingness to risk his funds abroad has already done so much to lay the groundwork for a gradually higher level of industrialisation overseas. Thus, while the dust settles, the average investor, no matter where he may be, undoubtedly will prefer to limit his overseas investments to those areas which give him some reasonable assurance of political stability.

If the free world is to use mass investment as a tool to help keep itself free, *foreign corporations*, too, have a singularly important task to perform. We know, of course, that the backgrounds and traditions of overseas businessmen differ from ours in the United States. Businessmen abroad may even be startled by our emphasis on the spread of shareownership among millions of middle income people. But they are, as I have indicated, coming to appreciate the economic and ideological impact of this trend. And, for my part, I must be candid in spelling out the requirements for achieving this goal.

Experience has taught us, for instance, that the auditing and disclosure policies which have become commonplace to American corporations are prerequisites for broadening ownership on a sound basis. The United States shareowner has become accustomed to fair and orderly markets.... to stable companies.... to the corporate vote.... to proxy solicitations which allow him to cast his vote easily.... and to annual and quarterly statements which provide him with the data he needs to make a reasoned decision. Americans, too, have become accustomed to shares made out in their own names, rather than to the bearer. Registered shares, for example, have provided a direct and effective channel of communication between company and stockholder. In the United States, too, we are developing educational programmes among employees and among youngsters in schools. These programmes portray the human values of a free enterprise economy—as well as its material advantages.

Gradually, I would hope that foreign companies can adopt these measures in order to create a truly informed investing public. Such measures, I might add, are not as awesome as they may seem. A number of great companies overseas have moved in this direction. Others are doing so. A number offer stock acquisition programmes to their employees.

Foreign Corporations

A testament to this changing attitude is the roster of foreign corporations on the New York Stock Exchange. They all meet our stringent listing and disclosure requirements. Their presence has made the Exchange the world's leading international marketplace. They prove that managements abroad can indeed thrive with the techniques of disclosure, the corporate vote and the other elements that go to make up modern economic democracy.

I must concede that I have outlined a number of suggestions that will not be achieved with either lip service or good intentions. The proposals I have offered can be accomplished only with the most massive educational effort.

But this effort is fully justified. Broader shareownership is much more than an economic device. It is another way in which we can win the minds and loyalties of men to the idea of freedom.

Progress in any or all of these areas and an accompanying rise in shareownership will again demonstrate that the most important thing about free enterprise is freedom. It is this which makes our striving to raise economic standards of living only a means to raising the ethical standards of life. We shall, as one leading American statesman has pointed out, demonstrate that "through economic growth freedom works—that it, better than Communism, can mobilise human energies and bring about equitable sharing of the fruits of labour."

Only then can we build a world in which we can generate the full power of freedom, with its emphasis on the individual, its respect for his right to choose, its regard for his aspirations and talents.



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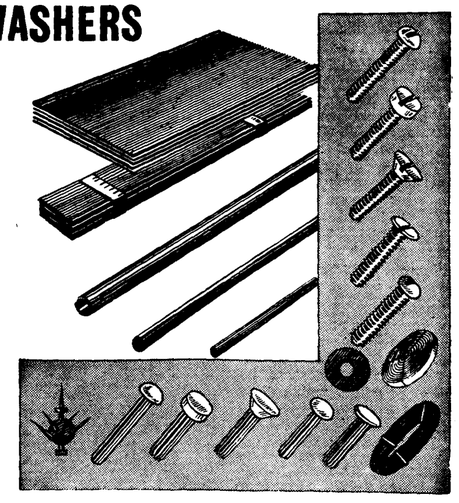
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GROWTH OF LONDON STOCK EXCHANGE

A Body That Protects Investing Public From The Unscrupulous

By SIR OSCAR HOBSON

ONE-TIME CITY EDITOR OF THE *NEWS CHRONICLE*, LONDON

THE London Stock Exchange is one of those British institutions which evolved from humble and obscure beginnings without conscious aim or ambition beyond that of providing a living for its participants, who, in the sixteenth century, had already divided themselves into "brokers," who were intermediaries between the public and the "market," and "jobbers," who were the "market" and dealt only with brokers or other jobbers and not with the public.

Even when, after a sojourn of a century and more in the Royal Exchange or the surrounding coffee houses, the stockbrokers and jobbers decided to erect their own building on its present site, so little conscious were they of its historic destiny that they allowed its foundation-stone to lie buried and forgotten until, after many decades, it was accidentally rediscovered.

Jealous of Its Private Character

When it was rediscovered, it was found to contain a copper plate on which was recorded that the building was "Erected by Private Subscription for the transaction of business in the Public Funds." Jealous insistence on the private character of the institution was long shared by the Stock Exchange with the Bank of England, whose Directors were apt, less than 100 years ago, as Bagehot tells us, to protest that the Bank had no duty to the public but existed solely for the benefit of its proprietors. It is many years since the Bank changed its tune and acknowledged its public responsibility and now the Bank, in virtue of nationalisation has lost the last vestiges of its private character.

The London Stock Exchange still remains in form a "private" body, which has never even received the public recognition of incorporation by Charter. Nevertheless, only a few "die-hards" among its members would now proclaim that it owed no duty at all to the public.

In any case, it is beyond question that the Stock Exchange has, in fact, done a great deal in recent years to pursue the interests of the investing public and to protect them from loss arising through undesirable practices on the part of its members, or through the admission to dealing and listing facilities of undesirable securities.

Enlightened Self-interest

It may be that the reforms of practice and procedure and the conditions for the listing of securities which were initiated in 1930 and have been pursued with increased vigour after 1945, can be attributed to no nobler motive than self-interest—to observance of the principle that "what is good for General Motors is good for the United States."

If so, it was at any rate enlightened self-interest which convinced the Stock Exchange that it could no longer be content to stand on the principle that it need not concern itself with the quality of the securities in which its members dealt but only with providing an honest and orderly market.

The immediate cause of this change of attitude was the crop of unsavoury prospectuses which characterised the stock market boom of 1928-29 and brought considerable losses to the clientele of the Stock Exchange, not least to its poorer and less sophisticated members. It was the new issue scandals of this period more than anything else which convinced the Stock Exchange authorities that they could no longer disinterest themselves in the respectability of the securities to which they were asked to give the hospitality of the market.

One key step they took at that time, in 1930, was to create a Records Department which collects full information about all companies, directors and other persons who are in any way interesting to the Stock Exchange. These records have proved invaluable both to the Stock Exchange authorities and to its members, in spotting and checking possible abuses of its facilities.

In the years preceding World War II, the reform process was impeded by the existence of the archaic "dual control" system which had survived from the time when the Stock Exchange first acquired its own building. Under this system, one body, the Trustees and Managers of the Stock Exchange, owned and administered the building, while an entirely separate body, the Committee for General Purposes, was responsible for regulating the conduct of members in all matters concerned with dealing and for deciding under what conditions securities should be admitted for dealing and for quotation in the official price lists.

All Members Hold a Share

All members of the Stock Exchange had to own at least one share in the Stock Exchange company and all thus owed a double allegiance to the Trustees and Managers and to the Committee. Even with goodwill on both sides (which there normally was), it is obvious that this system did not make for flexibility and ease of adjustment to changing conditions, more especially as members' subscriptions were paid to the Trustees and Managers and the Committee for General Purposes possessed no funds at all, except such as, in their discretion, the Trustees and Managers allowed them.

After years of discussion and negotiation, the dual system was finally terminated in March 1945, when the two controlling bodies were superseded by a single body composed of members of both, the Council of the Stock Exchange. The Council, which has a membership of 36, now administers the Stock Exchange in all its aspects. Its decisions are unchallengeable, but, in virtue of the fact that one-third of its members retire (but are eligible for re-election) every year, it is ultimately amenable to the views and wishes of the whole body of members of the Exchange.

No Legislative Control

This constitution of the London Stock Exchange differs considerably from that prevailing in some other countries, where the Stock Exchanges are in certain respects, notably as regards the conditions under which they may grant dealing rights to new securities, under legislative control.

In Britain, the Company Law does, of course, lay down minimum standards as regards disclosure of information in prospectuses and offers for sale. In recent years, however, the standards insisted upon by the Stock Exchange Council have gone well beyond those specified by the law. This fact was recognised by the last official committee which reviewed the Company Law the so-called Cohen Committee which reported in 1945.

The Cohen Committee, after stating that the Stock Exchange Council, before granting permission to deal "make searching enquiries as to the promotion and the personnel connected with the company" and "impose stringent requirements as to the articles of association... and the disclosure of facts relating to the business and the information material to the prospectus," went on to say that "some of the requirements of the... Council as to the information to be disclosed... go beyond the requirements of the Companies Act."

System Praised

It went on to praise the "flexibility" of this system, pointing out that, while the measure of security achieved by the Stock Exchange was greater than could be obtained by statute except at the cost of hampering legitimate business, the Council had the power to "waive some or all of its requirements in suitable cases."

While the Stock Exchange Council meets at frequent intervals, it could not itself discharge all the multifarious duties which fall to its lot were it not able to delegate some of them to sub-committees. It is, in fact, assisted by some dozen committees. Most of these are concerned with technical matters of almost purely domestic interest to the Stock Exchange, as, for example, the Property and Finance Committee, the Rules and Disputes Committee, and the Objection to Marks Committee ("marks" being the official recording by members of prices at which they have done business). But there are some which impinge more directly on the interests of the investing public.

Protection for the Public

There are, notably, the Quotations Committee, which considers and adjudicates on applications for "listing"; the Commissions Committee, which settles any disputed points on brokerage charges; and the Compensation Fund Committee, which administers the fund set up in 1950 to provide compensation for loss suffered by members of the public—but not members of the Stock Exchange itself—through defaults of various kinds.

The Quotations Committee deals not only with applications for permission to deal, but also with cases which occasionally arise where, owing to some irregularity in dealings in a particular security, it becomes desirable to suspend dealings in it. In such cases, the Committee is able to act with great promptitude, since, while the whole committee can be convened at a few hours' notice, it has two chairmen and two deputy chairmen who constitute a panel, which, if necessary, can take decisions almost at a moment's notice.

The Council and its committees are, of course, assisted by the permanent staff of the Stock Exchange which is divided into two main departments, namely, the Secretary's Department and the Share and Loan Department. It is this latter department which is concerned with all matters relating to quoted securities, and with the collection of information which may affect them.

Companies Supply Full Information

As an example of recent progress under this heading, it is worth noting that, apart from the extremely detailed information required from a company or other body seeking to have its securities quoted, the Stock Exchange now requires companies to enter into a "general undertaking" to notify the Share and Loan Department immediately of all relevant events and decisions which may be of interest to holders of their securities.

Under this undertaking, companies engage to inform the department of profit figures, dividends declared and the dates of board meetings at which dividends are to be considered, new issues of capital, and the like, and to supply the department with annual reports and with proofs of all circulars and notices to shareholders before they are despatched.

Applications to Deal Scrutinised

The Share and Loan Department is thus, nowadays, very well equipped to advise the Council and the relevant committees on all matters affecting the interests of the investing public. It will, for example, carefully scrutinise all applications for permission to deal before they are submitted to the Quotations Committee and it may take the initiative in recommending the Committee to suspend dealings in a particular security, though, in such cases, the initial step may well come from jobbers dealing in the security in question or from a broker firm.

It should be said, in this connection, that the Council and the committees are wholly composed of members of the Stock Exchange who give their services without remuneration. There is no power to co-opt outside experts. There is, however, close co-operation on certain matters of policy, including notably the information required in connection with listed securities, between the Stock Exchange administration and the Board of Trade, the Institute of Chartered Accountants, the Issuing Houses Committee and the protective committees of the insurance offices and the investment trusts.

In view of all the arrangements thus sketched out, it can be said that, whatever was once the case, the Stock Exchange now does its utmost to protect the investing public from preventable loss due to lapses from probity on the part of its members or inadequate vigilance over dealing practice or the quality of the securities dealt in. Though it still requires no professional qualifications from persons seeking to become members, it exercises great care in the admission of its members.

Strict Code of Conduct

Since the post-war reforms, members have only a remote personal interest in the commercial success of the Stock Exchange which, in

(*Continued on page* 104)





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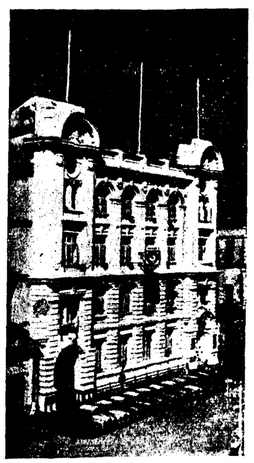
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Growth and Reform of Stock Exchanges

Real Import of Functions Requires Better Appreciation

By A. K. SUR
ECONOMIC ADVISER, CALCUTTA STOCK EXCHANGE

THERE is no civilised country in the world today, which has not its stock exchange. The stock exchanges occupy a pivotal position in modern society. They serve as trading centres for stocks, shares and bonds that have large local and national following. They render a service of profound importance and incalculable value to the investors, the corporate enterprises, and commercial banks. They allow the individual saver to put his money to work, not only for his own interest, but also for the interests of the nation. They provide the investors an efficient means for the ready marketing of the shares held by them. They bring the buyers and sellers of securities together quickly and effectively. Not only that. They help in setting values for securities. The ready marketability, as also the correct valuation of shares, help the bankers to make advances to their business clientele against listed stocks and shares. They are thus a means for readily meeting the needs of the business firms for working capital. Also, they help the business houses to raise fresh capital for their use. For serving as distributing agencies for the purpose, they help the businesses to sell their right shares easily and cheaply. They also provide a beacon light for the direction of new capital. To the country's tax-collecting authorities, too, they provide a reliable means for estimating the value of securities for proper assessment.

Prices on the stock exchange are determined by bids as in auctions. But, unlike conventional auctions, where only buyers compete and there is one seller, the stock exchange provides facilities for a two-way auction. Here not only buyers compete with one another to purchase at the lowest possible price the shares that they want to own, but, at the same time, sellers too compete with one another to get the highest price for the shares they are offering. A transaction takes place on the stock exchange only when the buyer bidding the highest price and the seller offering at the lowest price agree on a figure which is acceptable to each. Prices on the stock exchange thus reflect the basic law of supply and demand.

A Bit of History

The stock exchange as we know it today is the result of a slow process of evolution. It has almost the same embryonic history in India as in the West. The process started from the time the trading corporations issued shares in their capital or the Governments their loan securities. In Calcutta, we are told, business in the loan securities of the East India Company used to take place as early as at the end of the eighteenth century. By the 1830's, business in stocks and shares assumed considerable proportions. Business in those days used to take place under the shade of an ancient *margosa* tree, just as it used to take place in New York under a buttonwood tree. There was, of course, neither any organisation nor any code of rules for the guidance of the brokers. It was only in 1908 that Calcutta founded an organisation under the name and style of "The Calcutta Stock Exchange Association." Originally, it was an unincorporated company, but, in 1923, it came to be incorporated under the Companies Act.

From the records of the security markets in this country, we find that, although Bombay was a late comer in the field of stockbroking, yet it had the honour of having the first organised stock exchange in this country. The Bombay Exchange was started on 9th July 1875 under the name and style of "The Native Share and Stock Brokers Association." It came to be governed by a Constitution of 37 Articles embodied in its Deed of Association and the Declaration of Trust that were drawn up and adopted in 1887. The circumstances leading to the establishment of an organised stock exchange in Bombay may be briefly noted here. During the boom of 1863-65, share prices went sky-high. This was followed by a severe crash on 1st July 1865. We are told that "it was the first financial crisis of great magnitude in the history of Bombay. Insolvency and bankruptcy followed on a scale unknown in any other crisis of modern share speculation. Managers of banks and shops ordered their *hamals* to clear the brokers off their steps, and the police drove them from pillar to post. It was then that the principal brokers realised the necessity of some organisation, accommodation and facilities for carrying on their business. In 1874, a suitable place was selected at a monthly rent of Rs. 130 in what is known as Dalal Street." It was here that the Association was born in 1875.

Calcutta

The Calcutta Stock Exchange also emerged out of a similar crisis. Between 1904 and 1908, there was a coal boom in Calcutta. Prices of coal shares went up to dizzy heights. The boom drew many newcomers to the business of share speculation. These new-comers were ignorant of the usages and customs of share dealing. When the boom petered out and a crisis followed, disputes became too frequent among the brokers. Ultimately, the disputes precipitated a communal riot. Need of some form of organisation was badly felt for mutual protection and security of the brokers. An Association was founded on 15th June 1908, and accommodation was hired on a monthly rent of Rs. 1,080 *plus* half share of the municipal rates and taxes. From contemporary newspapers, we learn that the shares of no less than 236 companies used to be traded on the Exchange at the time of its foundation. Among these 10 were railways, 19 banks, 26 jute mills, 69 coal companies, 31 miscellaneous companies and 81 tea companies. The Association moved into its present imposing five-storeyed building, with a mezzanine floor, on 11th June 1928.

In between the establishment of the Bombay and Calcutta Stock Exchanges, another institution had also come into being at Ahmedabad in 1894. It was known as "The Ahmedabad Share and Stock Brokers' Association."

So at the time when *Commerce* started its publication in Calcutta in 1910, there were only three stock exchanges in India—at Bombay, Calcutta and Ahmedabad. In 1917, a second stock exchange was started in Bombay, but it had a natural death, and, though revived in 1922, it ceased to function once again. A stock exchange also came into existence in Madras on 6th April 1920, under the name and style of "The Madras Stock Exchange." But, later on, it too ceased to function. For many years, Upper India was without any stock exchange, though, in the 1920's, attempts were made by some influential persons under the leadership of the late Lala Harkissen Lal to start a registered stock exchange in the Punjab. But, owing to adverse campaign against it, their efforts failed.

New Stock Exchanges

It was, indeed, in the wake of the recovery process following the world depression of 1929-31 that founding of stock exchange became almost a rage in this country. In 1934, there were started stock exchanges both in Madras (known as "The Madras Stock Exchange Association Limited") and in the Punjab (known as "The Lahore Stock Exchange"). In 1936, the latter became merged with the Punjab Stock Exchange.

In Calcutta, where the old stock exchange used to carry on business only on cash basis (forward business came to be adopted from 9th October 1944), another stock exchange, known as "The Bengal Share and Stock Exchange Limited," came to be established in 1937 to carry business in stocks and shares on forward basis. Similarly, a rival stock exchange also came to be established in Bombay in 1938, under the name and style of "The Indian Stock Exchange Limited."

There were seven stock exchanges in India on the eve of the Second World War. But the speculative prospects of war-time business led to the establishment of many more during the war period. As a matter of fact, no less than six rival stock exchanges came to be established in Ahmedabad alone. Five more were also established in Lahore; one in Delhi; one in Kanpur; and one in Nagpur. By 1945, the number of stock exchanges in India came to 21, exclusive of unorganised ones, *katni* markets, etc. At the time of the Thomas Inquiry, there were 20 stock exchanges in India, including one at Hyderabad and another at Bangalore.

Too many stock exchanges and diversity of rules and regulations among them relating to membership and trading, and the post-war crash of 1946, all combined together to compel the Government to enact the Securities Contracts (Regulation) Act in 1956. Under this Act, only seven stock exchanges have been granted licence to operate in this country. They are the stock exchanges at Calcutta, Bombay, Madras, Delhi, Hyderabad, Indore and Ahmedabad.

Control of Exchanges

Government control over the activities of the stock exchanges was virtually unknown in this country prior to the 20's of the present century. Business in stocks and shares as a matter of fact first came under official control through the Bombay Securities Contracts Control Act 1925, which was clamped on the Bombay Stock Exchange in 1926 and on the Ahmedabad Stock Exchange in 1939. Under this Act, a contract pertaining to the purchase and sale of stocks and shares, other than one for ready delivery, was declared to be void, if the same was not effected through the members of a stock exchange recognised by the Government. The Act empowered the Government to grant recognition to a stock exchange and also to withdraw the same. The Act, however, failed to achieve its objects. For it made transactions outside a recognised stock exchange merely void but not illegal. Then, again, it made no clear distinction between a ready and a forward contract.

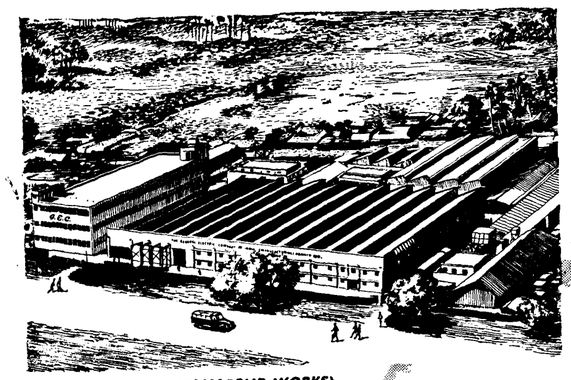
Control of stock and share business on an all-India basis first came to be exercised by the Government through the Defence of India Rules 94C. This prohibited the giving of *budla* facilities (for the carry over of transactions) by the stock exchanges, and also prohibited them to permit their members to make contracts other than those for ready delivery. This measure, too, was not effective, as it did not make *budla* illegal, but only prohibited the stock exchanges to provide such facilities to their members. In consequence, *budla* transactions drifted from the organised to the unorganised stock exchanges. The D.I.R. 94C was, however, repealed in September 1946.

Urgency of Legislation

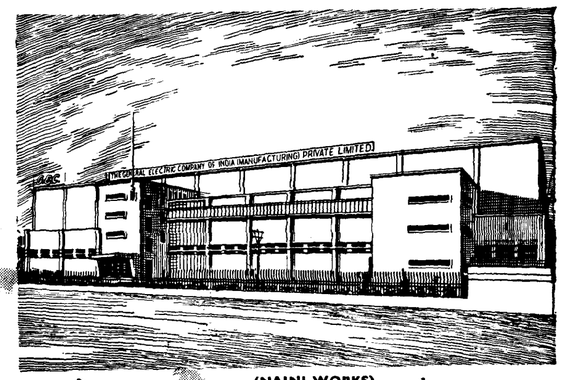
The urgency of a comprehensive legislation for the control of business in stocks and shares on an all-India basis was first felt by the Government of India, when there was unbridled speculation in stocks and shares during the boom of 1946. Dr. P. J. Thomas, the then Economic Adviser to the Government of India, was appointed to probe the matter and submit a report on the same. His report was submitted in 1948, and this was followed by the appointment, in the same year, of an official committee to examine, *inter alia*, the expediency or otherwise of prohibiting forward business in stocks and shares, of abolishing blank transfers, and of setting up clearing houses for the settlement of business. The Committee was also asked to submit detailed proposals for a legislation on the matter. While making various recommendations, the Committee expressed the view that an essential prerequisite for the introduction of reforms in stock exchange practice was the reform of the Company Law in several major directions. Meanwhile, in January 1950, the Constitution of the Indian Republic came into force, and in it regulation of stock exchanges was made a Central subject.

In 1951, the Government of India appointed an informal committee to prepare a draft Bill for the regulation of stock exchange. This Committee too found that some changes in Company Law must precede the enactment of any legislation on the matter. The draft Bill as prepared, was examined by a representative committee (on which among others sat the Presidents of the stock exchanges at Calcutta, Bombay and Madras) appointed in June 1951 under the chairmanship of Mr. A. D. Gorwala. The Committee submitted a revised draft Bill on the subject.

An official Bill largely adapted from the Bill prepared by the Gorwala Committee was introduced in the Lok Sabha on 24th December 1954. The Securities Contracts (Regulation) Bill, as it was called, was referred to a Joint Committee of the Lok Sabha and the Rajya Sabha, respectively, on 28th November and 5th December of 1955. The Bill, as amended by the Joint Committee, was passed with some amendments by the Lok Sabha on 16th July 1956 and by the Rajya



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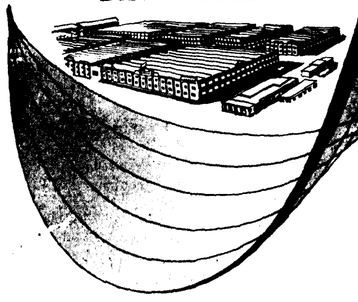
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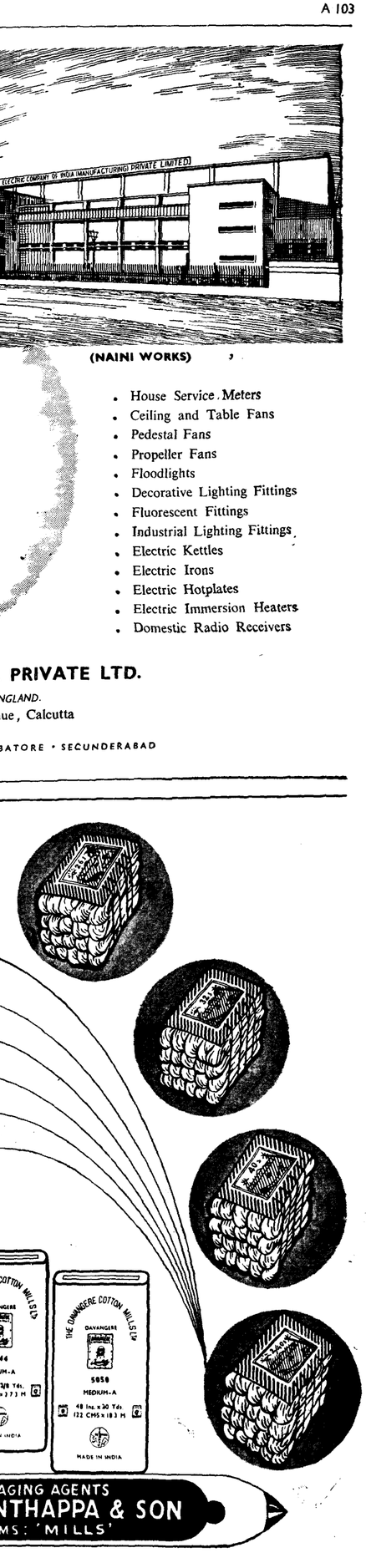
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Sabha on 6th August 1956. The President of the Indian Union gave his assent to the Act on 4th December 1956. The Act came into operation on 20th February 1957.

New Practices

Under the provisions of the Securities Contracts (Regulation) Act, no stock exchange can operate in India, unless it has obtained a licence from the Central Government. So far, the Central Government has granted licences to only seven stock exchanges—those at Calcutta, Bombay, Madras, Delhi, Ahmedabad, Hyderabad and Indore. All stock exchanges are now required to have their rules and regulations approved by the Central Government. Uniformity of practice in this regard is now being sought to be achieved by the Government.

The Central Government has also been invested with the power of withdrawing the recognition of a stock exchange, and also of superseding the governing body of a stock exchange. The Central Government has also the power of calling for periodical returns and of also inquiring into the affairs of a stock exchange.

Under the Act, no person other than a member of a recognised stock exchange can deal in securities in a notified area. Option dealing in securities has been prohibited. Generally speaking, all transactions (other than those specified for settlement through a clearing house) should be on "spot delivery contract" basis. Such a contract provides for the actual delivery of securities and the payment of a price therefor either on the same day or on the next day.

Previously a "firm" could be a member of a stock exchange. This has now been prohibited. Only individuals can now become members of a stock exchange, though several such individuals are allowed to form themselves into a partnership firm. All members of a stock exchange are now required to put in a security deposit, which, in the case of Calcutta, is Rs. 20,000. Members are also required to keep and maintain a prescribed set of books of accounts and when required by the Government they must have them audited by a chartered accountant. Punishments have also been prescribed for contravention of the statutory provisions.

Effect of Regulation

The regulatory control of the Central Government over the stock exchanges is exercised through a specially created department of the Finance Ministry known as its "Stock Exchange Division" with its executive office at Bombay. The work of this department has been valuable to the stock exchange in the following ways: (1) Reinforcing the efforts of the exchanges to obtain adequate financial reports and other information from the listed companies. (2) Providing a more vigilant check upon manipulation. While an exchange can discipline its own members, the most glaring cases of manipulation are engineered by non-members sometimes acting in collusion with the managements of the companies whose shares are dealt in on the exchange. The exchange authorities are not in a position to inflict punishments that the Government is. Of course, an exchange can delist the name of a manipulated stock, but the injury principally falls on the body of innocent shareholders whose holdings thereby become non-marketable. (3) Acting upon problems which are of general economic or public interest. The Government would seem to be the most suitable agent for controlling the securities markets so that their activities will harmonise with the general welfare.

Perhaps the most important change that has been brought about by the Securities Contracts (Regulation) Act is in the sphere of listing of companies. Formal listing is a privilege granted to a company by the exchange on the basis of an application made therefor. A company may list all or only certain of its securities. The chief requirements made of the company are as follows: (1) Certified copies of Memorandum and Articles of Association, Prospectuses, Consent of Controller of Capital Issues, Agreements with Managing Agents or Managing Directors, selling agents, etc., must be submitted along with the application. (2) Financial and historical facts of investment import must be disclosed. These include balance-sheets for five years, dividend history for ten years, a short historical account of the company's growth, properties, capital structure and so forth. (3) The distribution of the shares must be described showing whether the issue is widely held or concentrated in a few hands, so that the exchange authorities may reasonably be assured of a free and uncontrolled market. A closely held issue might be subject to manipulation. All companies applying for enlistment are also required to make a public offer of at least 49 per cent. of the shares by advertising in newspapers. (4) Transfer facilities must be maintained in the city of the exchange. While the exchange adopts these precautionary measures before permitting a stock to be dealt in on it, it does not however give any guarantee as to its quality. Its function is merely to provide a free and open market for legitimate securities ranging from the Gilts to the most speculative equities. Issues have been listed which have never paid any dividend since incorporation.

All listed companies are now required to execute a Listing Agreement Form, containing various obligatory provisions which they are required to comply with. The philosophy behind the new listing regulations is simply this: The investor or trader who owns, buys or plans to purchase listed securities is entitled to information about the company which will help him to make his investment decisions intelligently. Non-conformist companies are now removed from the list by the committee.

The Central Government itself has now been vested with power to compel a public company to have its securities listed on a recognised stock exchange. It has also been given powers to hear appeals from a company whose application for enlistment of securities has been rejected by a recognised stock exchange.

Protection of Investors

Protection of investors is indeed the basic idea underlying the present listing regulations of the stock exchange. In this connection, a reference should also be made to Section 73 of the Companies Act, under which a company issuing shares to the public with the declaration in its prospectus that an application shall be made for enlistment on a recognised stock exchange, must make such an application within ten days of the closing of the list and, if such an application has not been granted by the stock exchange concerned within three weeks (may be extended by another three weeks), the company must return all moneys to the applicants for shares.

Lastly, some reference must be made here to certain fundamental changes that have taken place in the character of the market in the post-war period. The old props of the market like the *zamindars* and the princes are now gone. Their places have now been taken by an ever-growing body of enlightened individual investors, and also institutional investors like the Life Insurance Corporation of India. The dominance of the Life Insurance Corporation in the scene is today of great significance to the market in the making of trends.

Government policies have continued to blur the horizon, but the growth prospects of the new industries, particularly those who have currently secured foreign collaboration, have given a new shape to the demand for new securities. In some cases, the craze for new securities has been rather unusual, and the skyrocketing price trends that they have brought about have been frowned upon by the authorities. But the authorities forget that the stock market is essentially a measuring instrument—a thermometer. The Government can perhaps impose increasingly restrictive measures on the nation's investors, but it has to be borne in mind by them that the long-term economic solutions do not lie in shaking the thermometer, or in applying ice packs to it while forgetting the patient and ignoring the real causes of the thermometer's rise.

The Government also needs a realistic attitude towards the investors. They have to keep in mind that the investors are the people who do willingly risk money for new plants, new tools, new jobs and new products needed by the nation. At the same time, the investors should also remember that the stock market is not a pagoda tree, a mere shaking of which yields them riches. It is, after all, a trading ground, and the transactions therein merely mirrors the hopes, fears and convictions of a great mass of people, and no regulatory measure has ever been able to outlaw booms and slumps.

Politics . . . Jay Shree

OVER A CUP OF TEA

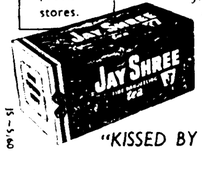


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GROWTH OF LONDON STOCK EXCHANGE

(*Concluded from page* 100)

fact, only make slender profits as an institution. It lays down and enforces a strict code of conduct to be observed by its members in their professional capacity. And, as has been demonstrated, it takes the most thorough precautions to withhold dealing facilities from securities which could be regarded as in any way "tainted."

It is not easy to see what more the Stock Exchange could do in this sphere—unless, indeed, it finally decides to follow in the footsteps of similar professions by adopting the system of qualifying examinations for members.

Must Extend Its Services

All this, of course, is not to say that the London Stock Exchange has reached finality in its evolution as a national institution. The great task which now lies before it is to extend its service to sections of the population which hitherto has made no use of them. With the standard of living of the lower-income classes steadily rising, it is to be expected—indeed, it may well be a condition of a continuance of the rise—that these classes will save more and will have need of the facilities of the stock markets in the investment of their savings.

The term "share-owning democracy" which has recently come into vogue, expresses this line of social advancement. The Stock Exchange is playing its part by making itself and its services known to the wider public which is still largely ignorant of them.

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that Free Enterprise is your enterprise and contributes to your prosperity. It is the lifebreath of a free society. It is not a creed; it is a way of life which all who cherish freedom must safeguard.

"WE BELIEVE that democracy is an essential element in the Indian way of life. Free Enterprise is an integral part of it and as such it should be permitted to play its legitimate role in our national life.

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"WE BELIEVE that in the circumstances prevailing in our country today, there is ample room for State enterprise to function alongside of Free Enterprise in the service of the people. Monopoly of any kind, whether State or Private, is undesirable.

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Extracts from the Manifesto of the Forum of Free Enterprise.

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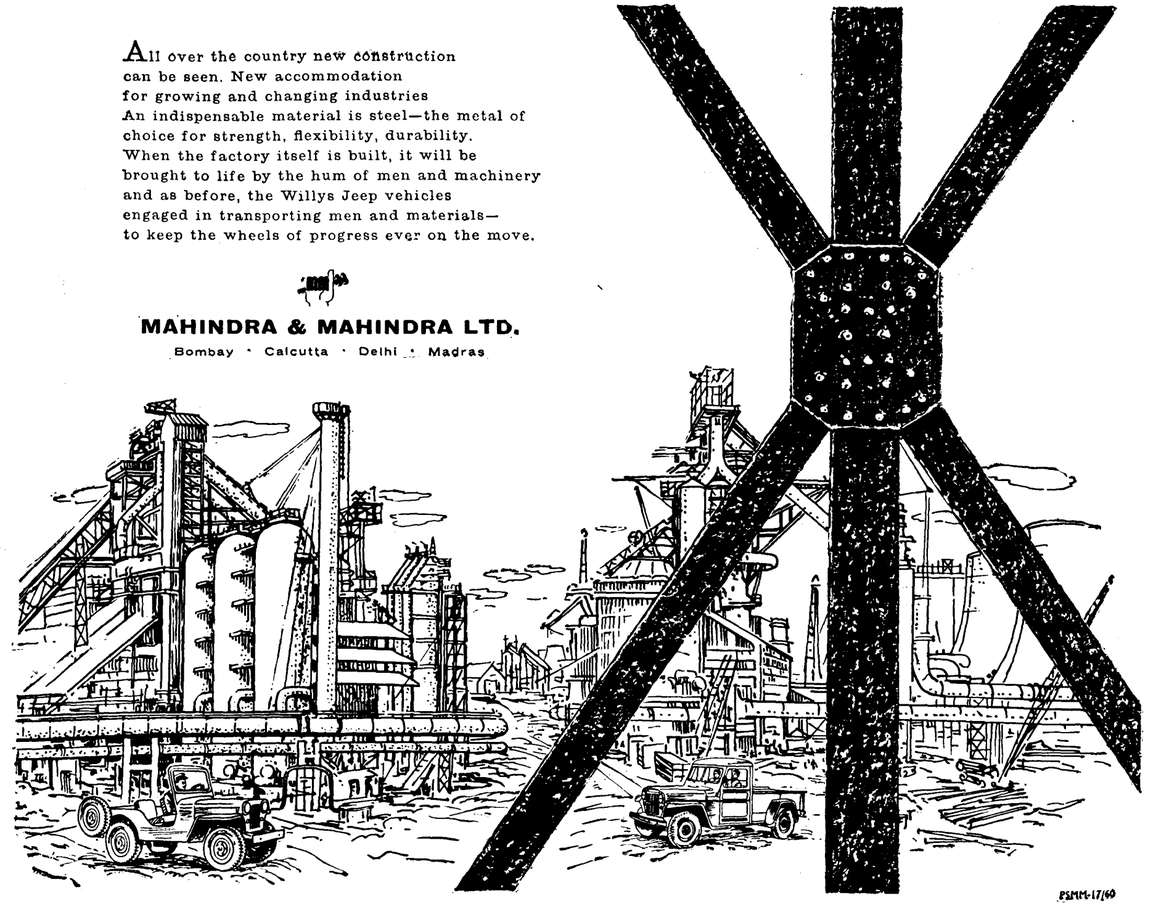
"Free Enterprise was born with man and shall survive as long as man survives"

— A. D. Shroff,
President,
Forum of Free Enterprise

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SCOPE OF STOCK EXCHANGES *VIS-A-VIS* THE CORPORATE SECTOR IN INDIA

By Dr. RAJ K. NIGAM

AS in many other countries of the world where the institution of stock exchange exists, the operations on the stock exchanges in our country also attract the attention of quite a considerable number of people, let alone the Government which, after the passing of the Securities Contracts (Regulation) Act, 1956, have the powers to exercise supervision over the functioning of the stock exchanges in the country recognised by them. People interested in the operations on the stock exchanges belong to variegated sections of the society, say, the well-to-do moneyed class represented by the industrialists, financiers and businessmen, the upper and lower-middle class represented by lawyers, doctors, chartered accountants, wholesalers, retailers, civil servants and the salaried proletariat of the non-Government offices and, finally, the working class. The last category of persons has not yet evinced much interest in stocks and shares in our country, but one might expect to see glimmerings of wider spread of share ownership in the not too distant future in our country also on lines similar to the spread of shareownership in Western countries under the various schemes of employee-share-ownerships, evolved by the big and giant-sized companies such as Imperial Chemicals, General Motors, Courtaulds, Fords, etc. and under the Unit Trust movement.

Purposes of Operators

Among those interested in stock exchange operations, some people go to stock exchanges for purely economic reasons, that is, for selecting scrips for investing their savings in profitable channels of investment or for getting ready cash in times of need in exchange for the scrips already held by them. Some others from the moneyed and rich core of the society at times go to stock exchanges for making quick and easy money through speculative manœuvres, often bordering on gambling. But, apart from these speculators, there are also persons from the rich strata of the society controlling and running large and medium-sized undertakings who go to stock exchanges with certain other ulterior motives than those of earning easy money through speculation and by spreading rumours and false alarms. For instance, sometimes these persons practise subtle and invisible techniques for cornering shares of certain companies with a view to gaining control over them while their directors and managements remain unwatchful and uninformed of such deft moves. In fact, these speculative and other questionable activities on the stock exchanges in this country as well as in the outside world which in the past proved ruinous to the genuine investors and rocked the foundations of industries, have aroused strong suspicion and scepticism regarding the usefulness of the institution of stock exchanges and resulted in a demand from the public for the regulation of the activities carried on there, so that healthy investment conditions might prevail on them and that speculation, if it were to be permitted, might remain well within bounds.

Value of Stock Exchanges

In a non-socialist society, stock exchanges serve as a barometer of economic and financial conditions and as an index to the economic prosperity of the country. Its economic functions are, indeed, very important and significant. They supply a means by which those who hold securities and shares exchange them for others or convert them into cash. Further, by providing marketability and price continuity for securities and shares, they assist in a reasonable evaluation of intrinsic worth of the shares to be used by the banks, insurance companies and other financial institutions. The stock exchanges also provide a mechanism to the business undertakings and Government agencies to obtain funds for meeting their long-term financial needs. It is, indeed, a remarkable thing to note that stock exchanges serve both the public and private sectors alike without a sense of discrimination exercised against the one or the other. To a certain extent, the Government, quasi-Government bodies, Port Trust authorities, local self-governments, etc., get their securities easily listed, while a certain amount of discretion is exercised at the time of listing of industrial stocks and shares. The stock exchanges ensure that the scrips of good projects alone are taken on the list and that the indifferent or bad propositions are left out. Thus, they provide an extra safeguard to investors, in addition to the one got from the screening done by Government at the time of sanctioning capital issues to promoters under the Capital Issues Control Act and Licensing Regulations, etc. These are some of the general benefits bestowed on the society by the institution of stock exchanges. In the present context of planning and economic development in our country, it hardly requires to be mentioned that stock exchanges are expected to play a very vital role in mobilising the nation's savings for meeting capital requirements of the private sector and the Government.

Reform

The historical evidence available in this and other countries shows that stock exchanges have been an important instrument for bringing about industrial development. But for them, the corporate form of business based on the principle of 'limited liability' would have proved quite ineffective and unworkable in the realm of trade and industry. Like the company law, the stock exchanges in amorphous or organised form, have existed for nearly a hundred years, both having sprouted in the fifties of the last century. But, while these successfully stood the test of time, they brought with them a host of evils and unfair practices in the corporate field which, in our country, were last surveyed in 1955 when the present Companies Act, 1956 was discussed in Bill form in Parliament. Subsequent developments and unfair practices have been covered in the Companies Amendment Bill, 1959. The activities on the stock exchanges were last surveyed in 1956 when the present Securities Contracts (Regulation) Act was discussed in Parliament. Before this Act, there was no Central Act to regulate the working of stock exchanges on a national plane and to prescribe uniform rules and regulations to be followed by stock exchanges all over the country. By and large, the stock exchanges before the Securities Contracts (Regulation) Act came into force, functioned as 'private clubs' governed by the sets of rules and regulations framed by a small group of persons—the members of the stock exchange concerned. Different rules prevailed in different stock exchanges and the Government had no effective reserve powers to intervene in times of hectic speculative activity as was noticed in 1937, 1946 or 1955. The present Act has brought the stock exchanges under the surveillance of the Central Government, but it would be wrong to conclude from this that all the evils associated with these institutions and with persons working on their floors have been checked and there is no scope for further reform.

In a sphere like this, it is of utmost importance that public attention is constantly focussed on the bad practices prevalent on the stock exchanges, so that more effective safeguards might be prescribed to protect genuine investors and the economic development of the country might not be retarded by the drying up of investment pipelines. Detailed and informed writings and works are required on this subject. These points, however, are not covered in the present article. It concentrates only on showing the coverage of the stock exchange operations in the national economy and analyses the structural pattern of industrial stocks and shares quoted on them. The important subjects pertaining to the functioning of the stock exchanges, namely, *badla* and kerb transactions, *fatka*, *katin* and *barha* dealings in different parts of the country, prevalence of blank transfer system, formation of bull and bear syndicates, etc., are not covered. These issues will have to be looked into in great detail by the specialists and informed insiders from the stock exchanges who have studied the matrix of stock exchange operations over a number of years. While this article does not go into these questions, it aims at providing the broad statistical facade against which the importance of the operations on the various stock exchanges can be assessed. The consolidated data relating to nature and range of scrips quoted on the stock exchanges is not readily available to those interested in the subject. The writer has collected the factual information from the official stock exchange quotation lists and other literature produced by dependable stock brokers. The data relate to the second quarter of 1960.

Extent of Coverage

As regards the overall coverage of the stock exchanges, in terms of total number of securities and industrial scrips listed on them and the total number of companies to which the scrips belong, it is computed that a total of nearly 2,200 Government securities and scrips, accounting for a total value of over Rs. 2,500 crores, are quoted on the seven stock exchanges of the country recognised by Government under the provisions of the Securities Contracts (Regulation) Act of 1956.

The total number of Central and Provincial securities, loans and debentures floated by certain Port Trust authorities and Municipal Corporations, State Electricity Boards and State Transport authorities is found to be 195, accounting for a total nominal value of Rs. 1,800 crores. The number of industrial scrips, including ordinary, preference and debenture issues, is found to be about 2,000, including scrips of a few foreign companies also. The said value of the scrips of Indian companies add up to Rs. 695 crores, issued by 1,150 Indian joint-stock public companies. Relating the total paid-up value of quoted industrial scrips and the number of the companies whose scrips are quoted on the stock exchanges to the total paid-up capital and number of public limited companies at work in the country, one finds that, out of a total of 7,300 public companies at work in the country during the first half of the calendar year 1960, only 16 per cent, enjoy the privilege of their shares being quoted on the stock exchanges. That is to say, in our country, the shares of only one out of six joint-stock public

TABLE 1

Share of Quoted Companies in the Total Number and Paid-up Capital of Public Companies at Work (1960)

	All companies at work (excluding Government companies)	Public limited companies at work (excluding Government companies)	Public limited companies at work whose shares are quoted on the stock exchange	(3) as % of (1)	(3) as % of (2)
	(1)	(2)	(3)	(4)	(5)
Number ..	26,796	7,271	1,150	4	16
Paid-up capital (in crores of Rs.) ..	1,125	786	611	54	80

TABLE 2

Number of Scrips Quoted on the Seven Stock Exchanges (1960)

Name of stock exchange	Number of Quoted Scrips				No. of companies to which the scrips relate	No. of companies whose scrips are borne on the forward list
	Total	Ordinary or equity	Preference	Debentures		
Calcutta ..	918	594	257	67	570	12
Bombay ..	479	297	151	31	275	65
Madras ..	446	254	135	57	246	12
Hyderabad ..	27	20	6	1	19	..
Delhi ..	69	54	15	..	50	4
Indore ..	7	6	1	..	6	..
Ahmedabad ..	212	95	116	1	88	7
Total ..	2,158	1,320	681	157	1,254	100
Common shares of companies ..	175	111	61	3	104	5
Total excluding common shares of companies ..	1,983	1,209	620	154	1,150	95

Note: This article is mainly a factual one and the views expressed herein are the personal views of the writer.

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companies are on one or more of the seven national stock exchanges. As a proportion of the paid-up capital of the public limited companies, the total value of the listed scrips (excluding debentures), however, works out to a higher figure than that revealed in the numbers. It is seen that the total value of the listed scrips (excluding debentures) works out to 80 per cent. of the total paid-up capital of the public limited companies at work as against a coverage of 16 per cent. observed for the number of companies having their scrips quoted on the stock exchanges. It is, however, to be noted here that, at present, the Government companies in the corporate sector in our country do not have any of their shares quoted on the stock exchanges and as such, the above figures of capital show the magnitude of investment operations of the private sector companies only.

Size and Pattern

A study of the size pattern of the public companies at work discloses that about 1,300 public companies have a paid-up capital of Rs. 10 lakhs and more and, of these, nearly 300 have a paid-up capital of Rs. 50 lakhs and more each. The 1,300 companies account for a total paid-up capital of Rs. 700 crores. On relating the figures of the companies quoted on the stock exchanges with those of the medium and big-sized companies, one would infer that a great majority of the companies quoted on the stock exchanges belong to the higher strata and only a small number of the smaller size companies has made its way into the stock exchange lists. Table 1 summarises the statistical position of companies having their shares listed on the stock exchanges, *vis-a-vis* the total number of public limited companies and all companies at work in the country.

The total number of industrial scrips comprising ordinary, preference and debentures issued by Indian companies is placed around 1,990, out of which the detailed breakdown data are available for 1,983 scrips. The seven excluded cases are in respect of the shares of seven companies listed on the Delhi Stock Exchange for which information could not be collected by the writer.

Out of the 1,983 industrial scrips quoted on the seven recognised stock exchanges, 1,209 are ordinary shares, carrying a total paid-up value of Rs. 512 crores, 620 are preference scrips accounting for a total paid-up value of Rs. 99 crores and 154 debenture issues, of which the total outstanding value amounted to Rs. 84 crores. Thus, out of the total paid-up value of Rs. 695 crores, that of ordinary scrips came to nearly 74 per cent. and those of preference scrips and debenture issues 14 per cent. and 12 per cent., respectively. Here it is to be noted that, with the abolition of the class of deferred shares under the provisions of the new Companies Act, 1956, deferred shares, which, in the past, were rather actively traded and even speculated upon, no longer figure on stock exchange lists. As per requirements of the provisions of Section 89 of the Companies Act, deferred shares* have been converted into equity shares. The total number of shares covered by the scrips quoted on stock exchanges come to about 377.6 million shares, of which 341.4 million are equity shares, 32.7 million preference shares and 3.5 million debenture issues.

Post-Independence

As compared with the present position of companies and their scrips quoted on stock exchanges, it is interesting to note the position just after World War II and the advent of our independence. According to Dr. Thomas's report on the regulation of stock markets in India, published in 1948 by the Ministry of Finance, scrips belonging to 1,125 companies were quoted on the various stock exchanges in the country. The total number of scrips was then around 1,500, with a total paid-up capital value amounting to Rs. 270.4 crores. In 1947, one out of every 10 joint-stock public companies reported to be at work was having its scrips quoted on the stock exchanges and the paid-up value of the scrips came to 83 per cent. of the total paid-up capital of all public companies at work. Over the period 1947-60, the number of quoted companies has remained more or less unchanged, whereas the number of scrips has gone up by 20 per cent. and the total value has become nearly 2½ times the value observed in 1947. Similarly, the aggregate number of shares covered by the listed scrips has also more than doubled over this period. Thus, these statistics show that, notwithstanding the fact that the number of companies quoted remained steady, the financial stake of the public has very considerably increased over the period 1947-60. There has also been a broader dispersal of share ownership in the country, with the increase in the total number of shares covered by the quoted scrips during the same period.

Our study for the year 1960 gives the following details relating to the companies whose scrips are quoted on the seven recognised stock exchanges of the country. As in the past, the Calcutta Stock Exchange heads the list in the number of scrips quoted. It is followed by the Bombay Stock Exchange, where nearly half of the number of scrips observed in the Calcutta Stock Exchange are quoted. But the total paid-up value of the scrips quoted in Bombay is little more than that on the Calcutta Stock Exchange. In terms of number of scrips, the Madras Stock Exchange is very close to the Bombay Stock Exchange, but the paid-up value of the scrips quoted on it comes to only one-third of the aggregate value of the scrips listed on the Bombay Stock Exchange. From this, one could draw the inference that, comparatively speaking, a large number of big-sized companies are having their quotations on the Bombay Stock Exchange and that it is mostly the medium-sized companies that get their shares quoted on the Madras Exchange. Among the other four stock exchanges at Hyderabad, Delhi, Indore and Ahmedabad, the last one has as many as 212 scrips on its list, while the Madhya Pradesh Stock Exchange at Indore has only seven scrips on its list. The analysis also reveals that, out of a total of 1,983 scrips, only 96 scrips, belonging to 95 companies, are borne on the forward list. Table 2 presents a comparative position of quoted scrips, together with the number of companies to which they belong.

TABLE 3

Number of Companies having one or more Scrips quoted on the Stock Exchanges (1960)

Name of stock exchange	Total	Ordinary preference and debenture	Ordinary and preference	Ordinary and debenture	Preference and debenture	Ordinary	Preference	Debenture
Calcutta	570	45	174	13	1	333	..	4
Bombay	275	16	108	9	2	138	1	1
Madras	246	13	107	10	1	110	2	3
Hyderabad	19	..	5	1	..	13	..	..
Delhi	50	..	10	..	..	40	..	..
Indore	6	..	1	..	..	5	..	..
Ahmedabad	88	1	87	..	..	..	..	..
Total	1,254	75	492	33	4	639	3	8
Common cases	104	3	48	..	..	53	..	..
Total excluding common cases	1,150	72	444	33	4	586	3	8

TABLE 4

Number of Companies and scrips quoted on one, two and more Stock Exchanges Separately (1960)

(Paid-up capital in crores of rupees)

	No. of companies whose shares are quoted	Paid-up capital			No. of scrips quoted		
		Ordinary	Preference	Debentures	Ordinary	Preference	Debentures
1 stock exchange	1,066	419.6	74.0	80.7	1,113	567	151
2 stock exchanges	67	53.3	14.1	2.5	78	38	2
3	14	34.3	10.3	0.2	14	14	1
4	3	5.2	0.6	..	4	1	..
5 and more	..	..	..	..	..	..	..
Total	1,150	512.4	99.0	83.4	1,209	620	154

TABLE 5

Industrial Pattern of Quoted Scrips

Industry	No. of companies	No. of scrips				Paid-up value (In crores of rupees)			
		Total	Ordy.	Pref.	Deb.	Total	Ordy.	Pref.	Deb.
Tea	175	224	175	45	4	16.78	15.01	1.59	0.18
Coffee	24	45	24	13	8	3.09	2.33	0.51	0.25
Rubber	29	55	29	19	7	3.78	2.70	0.88	0.20
Cotton	208	412	225	172	15	112.14	90.66	16.95	4.53
Coal and mining	76	108	79	22	7	14.93	11.99	1.76	1.18
Sugar	63	104	66	30	8	21.95	17.87	3.04	1.04
Jute	57	131	60	53	18	30.53	20.46	7.53	2.54
Banking and insurance	57	108	70	8	30	51.19	34.56	0.80	15.83
Engineering and metal works (including iron and steel)	70	131	78	44	9	89.10	68.09	16.25	4.76
Cement	18	32	20	11	1	37.75	33.11	3.67	0.97
Paper	15	39	16	21	2	17.60	11.41	5.09	1.10
Chemicals	22	45	24	19	2	16.33	13.11	2.82	0.40
Railways	12	15	12	1	2	3.35	3.03	0.10	0.22
Shipping	10	14	10	3	1	20.73	16.45	0.53	3.75
Electricity	47	85	47	26	12	38.29	28.02	3.92	6.35
Miscellaneous	267	435	274	133	28	217.70	143.55	33.52	40.63
Total	1,150	1,983	1,209	620	154	695.24	512.35	98.96	83.93

A comparative study of scrips listed on the various stock exchanges in the country at about 1947 and at present shows that, during the last 14 years or so, the number of quoted scrips at the three premier stock exchanges of the country, namely, Calcutta, Bombay and Madras has increased. The number seems to have increased by nearly 100 scrips at Calcutta, from 807 scrips in 1947 to 918 in 1960. It has very nearly doubled at the other two stock exchanges, i.e., from 271 and 298 at Bombay and Madras, respectively, in 1947 to 479 and 446 in 1960. Of the other five officially recognised stock exchanges that existed in 1947, those in the U.P., the Punjab and Madhya Pradesh at Nagpur have vanished from the scene, while those at Ahmedabad and Delhi have survived and got official recognition under the new Securities Contracts (Regulation) Act. The number of listed scrips on the Delhi Stock Exchange has come down to 69 from 92, whereas it has more than doubled at Ahmedabad. The new stock exchange in Madhya Pradesh is now located at Indore, instead of at Nagpur, and is at present reported to be having seven scrips on its list. Here it may be mentioned that in 1947, according to Dr. Thomas's report, there were 60 scrips of sterling and other foreign companies quoted on the various stock exchanges in the country as against which their number today is reported to be 12 to 15 only. This fall is partly explained by the Indianisation and conversion of the foreign companies in the intervening years. There is, however, no reliable information available with regard to the speculative counters, but one could safely assume, on the basis of the past experience on the stock exchanges which, by and large, remained unregulated by Government, that their number was more than what we have today.

Types of Scrips

In our factual investigation we have also collected data showing as to how many of the quoted companies have more than one type of scrips quoted simultaneously on one or more stock exchanges. Out of 1,150 companies, only 72 seem to be having their equity, preference and debenture issues quoted simultaneously, whereas 444 have equity and preference shares quoted at the same time, 33 companies equity shares and debentures, and four companies preference shares and debentures. Of the remaining 597 companies, 586 companies have only their equity shares listed on the stock exchanges and three and eight companies have only preference shares and debentures listed, respectively. Details are given in Table 3.

A further probe into the stock exchange lists reveals that, of the 1,150 quoted companies, the scrips belonging to 1,066 companies are quoted on one exchange only and those of 67 and 14 companies are quoted on two and three exchanges at a time, respectively. The number of companies having their scrips listed on four exchanges is only three. Thus, it is seen that, at present, there is not a single company in the country which can lay claim to having its shares quoted on all the seven officially recognised stock exchanges. It is also observed that, as between Bombay and Calcutta, which are the two important nerve-centres of financial activity in our country, scrips of 21 companies are common on their lists. This distribution pattern provides an empirical evidence to the belief that the ownership of company shares so far as individual investors are concerned is not yet very widely diffused over the country but is confined to certain industrialised States or regions of the country which are close to the three

*A few shares are still seen to bear such nomenclature, but they have become *de facto* equity shares.

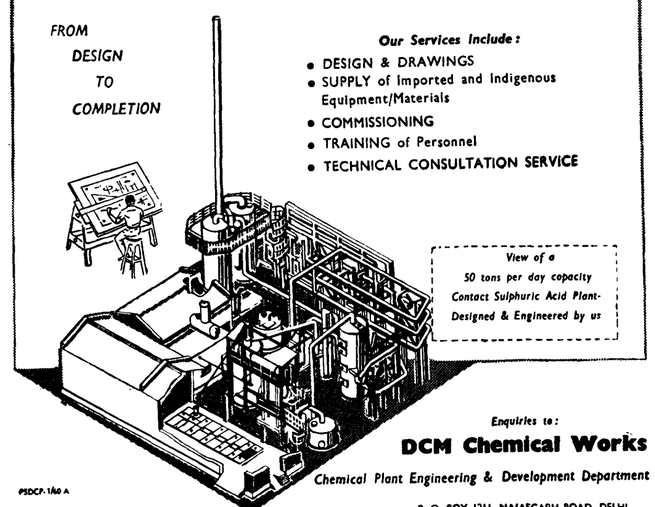


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principal stock exchanges situated at Bombay, Calcutta and Madras. Table 4 depicts the position of companies having quotations on one and more stock exchanges at a time. In this connection, it would be worthwhile recalling the position that prevailed in the year 1947. According to Dr. Thomas's report, out of 1,125 companies whose shares were quoted on the stock exchanges at that time, the shares of 128 companies were listed on more than one stock exchange. Our study now reveals that, now in 1960, only 84 companies out of a total of 1,150 have their shares listed on more than one stock exchange.

On looking into the industrial pattern of the scrips quoted on the stock exchanges in our country, we find that the largest number is that of cotton scrips, followed by tea scrips, the numbers of these industrial scrips being 412 and 224, respectively. In terms of value, next to cotton scrips come engineering scrips. In terms of number, coal mining, sugar, banking and insurance, jute and engineering number over hundred each and in total value, besides the cotton scrips, jute, banking and insurance, engineering, cement and electricity scrips aggregate more than Rs. 30 crores individually. Table 5 gives the details of industrial pattern of scrips quoted on the stock exchanges of the country.

As regards the denominations of the scrips quoted on the stock exchanges, it is seen that out of a total of 341 million equity shares accounting for a total paid-up value of Rs. 512.3 crores, 216.2 million are of Rs. 10 denominations, accounting for 40 per cent. of the total paid-up value of the listed scrips. Scrips bearing Re. 1, Rs. 2, Rs. 2.50, Rs. 5 and Rs. 100 denominations number 15.7 million, 21.7 million, 9.8 million, 27.9 million and 15.9 million, respectively. In value, Rs. 100 denomination scrips total Rs. 159.5 crores, that is, 30 per cent. of the total paid-up value of all quoted scrips. Apart from these, there are a few scrips bearing as high a denomination as Rs. 1,000. Among preference shares, the Rs. 10 denomination scrips predominate on stock exchanges, amounting to 22.8 million shares out of 32.7 million preference shares. The Rs. 100 denomination preference scrips have 6.5 million share units and account for nearly two-thirds of the total value of such scrips. Like the equity scrips, the highest denomination in this case also is Rs. 1,000. In contrast to the equity and preference scrips, debenture issues have been issued bearing a smaller number of denominations, namely, Rs. 10, Rs. 100, Rs. 500, Rs. 1,000 and Rs. 5,000. The largest number of debenture units issued is of Rs. 100 denomination debentures—2.8 million. In the aggregate value, Rs. 100, Rs. 1,000 and Rs. 5,000 account for 30 per cent. each. Table 6 gives the denomination-wise distribution of the quoted scrips.

The following three tables, 7, 8 and 9, depict the industrial pattern of scrips quoted on the three premier stock exchanges of the country, namely, the Stock Exchanges at Calcutta, Bombay and Madras.

The Calcutta Stock Exchange is dominated by the tea, jute and coal and mining scrips, the Bombay Stock Exchange by the cotton, engineering and electric scrips and the Madras Stock Exchange by the plantation, cotton, banking and insurance scrips. In the case of the other four stock exchanges, it is observed that the Hyderabad Stock Exchange has listed 4 cotton, 1 coal and mining, 3 sugar, 3 engineering and metal, 2 paper, 2 chemical scrips and 12 miscellaneous scrips. The Delhi Stock Exchange has listed 1 tea, 10 cotton, 11 sugar, 4 banking and insurance, 2 engineering and metal, 6 cement, 6 paper and 29 miscellaneous scrips. The Ahmedabad list contains 166 cotton, 2 engineering, 3 paper, 4 chemical and 37 miscellaneous scrips and the Madhya Pradesh Stock Exchange at Indore has on it 6 cotton and 1 banking scrips.

More Data Needed

At the tail end of this article, it may be mentioned that the data relating to the working of stock exchanges are, indeed, very scanty in our country. Truly speaking, apart from the share prices published by the stock exchanges on the basis of which the index numbers of security prices and yields are compiled by the Reserve Bank of India, we have practically nothing else to study the peculiar features of the business done on the stock exchanges. In the present state of data, no study is possible of the extent of speculative activities before a crisis develops and affects the fortunes of genuine investors and jeopardises the economic development of the country. To give just an instance, today, we have no information relating to the volume of the cash and forward transactions, total turnover on the stock markets, volume of transactions carried over, squared up and actually delivered—with which we could gauge the imbalances appearing on the markets. The exact scope of the missing data and the feasibility of their collection will have to be looked into carefully in the context of the statutory obligations cast on the stock exchanges and its members under the provisions of the Securities Contracts (Regulation) Act and the by-laws of the Stock Exchange Regulations approved by the Government.

NEW BRITISH CREDIT TO INDIA

An agreement for a credit of Rs. 6.67 crores (£5 million) from the British Government to the Government of India was signed at New Delhi on 23rd December 1960 by Sir Paul Gore-Booth, the British High Commissioner, and Mr. L. K. Jha, Secretary, Ministry of Finance, Department of Economic Affairs. India will be able to draw on this credit for a broad range of imports from the United Kingdom during the current year of the second Five-year Plan. With this, the British Government's assistance for the Plan aggregates a little over Rs. 107 crores. The credit is repayable in 20 years, the first instalment falling due on 30th November 1966. The rate of interest will be the same as that currently applied by the U.K. Treasury to a loan for a comparable period out of the British Consolidated Fund on the same date *plus* 1/4th of one per cent. for administrative charges.

SECOND EXIM BANK CREDIT FOR INDIA

The U.S. Government has announced an authorisation by the Export-Import Bank of a credit of $50 million to the Government of India for utilisation during the third Five-year Plan. The credit is available for the import of U.S. capital equipment for both public and private sectors. Allocations for the private sector from this credit will primarily benefit small and medium-sized business concerns. Repayment of the credit will be spread over a period of ten years beginning from 1966. This is the second credit granted to the Government of India by the U.S. Export-Import Bank. The earlier credit for $150 million was authorised in 1958 for India's second Five-year Plan.

TABLE 6

Denomination Pattern of Scrips Quoted on the Stock Exchanges

Denominations Rs.	Ordinary scrips		Preference scrips		Debentures	
	No. of share units issued (In '000)	Value (In lakhs of Rs.)	No. of share units issued (In '000)	Value (In lakhs of Rs.)	No. of share units issued (In '000)	Value (In lakhs of Rs.)
1	15,740	157	..	..	..	..
2	21,664	433	68	1	..	..
2.50	9,779	244	175	4	..	..
3, 3.50, 4	4,026	125	40	1	..	..
5	27,985	1,399	996	50	..	..
6, 7, 7.50, 8, 9	2,441	181	6	..	..	..
10	216,241	21,624	22,758	2,276	400	40
12.50, 15, 17, 20	10,940	1,913	240	32	..	..
21	41	9	..	..	..	..
25	6,817	1,704	858	215	..	..
30, 35, 37.50, 40, 43	706	271	85	31	..	..
50	4,633	2,317	814	407	..	..
60, 62.50, 64, 70	54	34	5	3	..	..
75	3,471	2,603	..	..	..	..
80, 85, 86, 90	102	93	17	15	N.A.	114
100	15,946	15,947	6,488	6,488	2,758	2,758
125	315	394	9	12	..	..
150	42	63	50	75	..	..
200	122	243	8	16	..	..
250	169	421	14	33	..	..
300	1	2	..	..	..	..
400	6	22	..	..	..	..
450	1	2	..	..	..	..
500	30	153	14	68	50	249
1,000	88	880	17	168	261	2,611
5,000	..	..	..	..	52	2,621
Total	341,350	51,234	32,662	9,895	3,521	8,393

TABLE 7

Industrial Pattern of Scrips Quoted on the Calcutta Stock Exchange

Industry	No. of companies	Number of scrips				Paid-up value (In crores of rupees)			
		Total	Ordy.	Pref.	Deb.	Total	Ordy.	Pref.	Deb.
Tea	138	162	138	24	..	10.76	9.89	0.87	..
Coffee	..	..	..	..	..	..	..	..	..
Rubber	..	..	..	..	..	..	..	..	..
Cotton	25	55	28	21	6	30.36	23.64	5.37	1.25
Coal and mining	73	104	76	21	7	14.03	11.17	1.68	1.18
Sugar	34	54	36	14	4	7.74	6.19	1.08	0.47
Jute	57	131	60	53	18	30.53	20.46	7.53	2.54
Banking and insurance	19	27	25	2	..	14.87	14.57	0.30	..
Engineering and metal works (including iron and steel)	29	52	31	16	5	30.71	24.39	4.66	1.66
Cement	10	19	12	6	1	12.10	8.74	2.39	0.97
Paper	11	32	12	18	2	15.42	9.57	4.75	1.10
Chemicals	9	17	9	8	..	5.54	4.79	0.75	..
Railways	11	14	11	1	2	2.41	2.09	0.10	0.22
Shipping	6	8	6	2	..	3.34	3.06	0.28	..
Electricity	21	29	21	5	3	4.10	2.93	0.55	0.62
Miscellaneous	127	214	129	66	19	139.18	92.06	23.23	23.89
Total	570	918	594	257	67	321.09	233.55	53.54	34.00

TABLE 8

Industrial Pattern of Scrips Quoted on the Bombay Stock Exchange

Industry	No. of companies	Number of scrips				Paid-up value (In crores of rupees)			
		Total	Ordy.	Pref.	Deb.	Total	Ordy.	Pref.	Deb.
Tea	6	9	6	3	..	1.66	1.54	0.12	..
Coffee	..	..	..	..	..	..	..	..	..
Rubber	3	5	3	2	..	1.02	0.62	0.40	..
Cotton	64	109	70	32	7	44.92	35.89	6.55	2.48
Coal and mining	4	5	4	1	..	1.27	1.19	0.08	..
Sugar	16	28	18	7	3	7.88	6.68	0.75	0.45
Jute	1	2	1	1	..	1.61	1.28	0.33	..
Banking and insurance	26	30	30	..	..	22.75	22.75	..	..
Engineering and metal works (including iron and steel)	34	71	39	28	4	72.91	55.36	14.45	3.10
Cement	10	14	10	4	..	31.25	29.48	1.77	..
Paper	5	16	6	9	1	10.57	5.95	3.62	1.00
Chemicals	6	15	7	7	1	7.20	5.18	1.77	0.25
Railways	2	2	2	..	..	1.24	1.24	..	..
Shipping	..	6	4	1	1	17.39	13.39	0.25	3.75
Electricity	15	33	15	12	6	32.18	23.60	2.90	5.68
Miscellaneous	79	134	82	44	8	85.74	55.02	14.21	16.51
Total	275	479	297	151	31	339.59	259.17	47.20	33.22

TABLE 9

Industrial Pattern of Scrips Quoted on the Madras Stock Exchange

Industry	No. of companies	Number of scrips				Paid-up value (In crores of rupees)			
		Total	Ordy.	Pref.	Deb.	Total	Ordy.	Pref.	Deb.
Tea	35	59	35	20	4	5.13	4.28	0.67	0.18
Coffee	26	48	26	14	8	3.98	3.17	0.56	0.25
Rubber	29	55	29	19	7	3.78	2.70	0.88	0.20
Cotton	52	81	58	21	2	19.30	16.66	1.94	0.70
Coal and mining	1	1	1	..	..	0.63	0.63	..	..
Sugar	10	20	10	9	1	4.47	3.21	1.14	0.12
Jute	..	..	..	..	..	..	..	..	..
Banking and insurance	16	56	20	6	30	21.24	4.91	0.50	15.83
Engineering and metal works (including iron and steel)	8	12	8	4	..	2.60	1.92	0.68	..
Cement	6	12	7	5	..	8.18	7.07	1.11	..
Paper	2	3	2	1	..	1.25	1.25	..	..
Chemicals	4	8	4	3	1	1.33	0.93	0.25	0.15
Railways	..	..	..	..	..	..	..	..	..
Shipping	..	..	..	..	..	..	..	..	..
Electricity	11	23	11	9	3	2.01	1.49	0.47	0.05
Miscellaneous	46	68	43	24	1	26.56	23.61	2.65	0.30
Total	246	446	254	135	57	100.46	71.83	10.85	17.78



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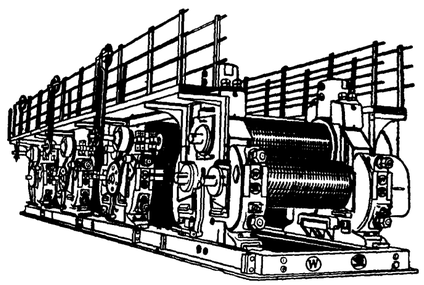
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The City Has Come Into Its Own Again

1960—Year Of The Conundrum For Britain

By Our Own Correspondent

LONDON, *7th December*

THE United Kingdom has travelled through 1960 uncertain of where the road would lead. Inflation beckoned brightly from one side, spurring the Government to a series of measures to keep the course away from such delusions; and on the other side hovered dull deflation, with its threat of recession, unemployment and dwindling reserves. Whichever way the powers of Whitehall and the City sought to take seemed fraught with more perils than those from which they turned away—and there, may be, is a clue to the philosophy of the year: policy was negative, seeking ever to escape from imminent ills rather than to aim towards positive goods.

But before surveying the national scene in closer detail, let us take a look at the heart of the country's financial affairs in the City of London. In 1960, the famous square mile has come into its own again, after all the trials of the war and post-war years, as the world's leading international centre. Sterling, financing half the world's trade, operates through a complex payments system in which the foreign exchange markets, the banks, the discount market, the gold market, the commodity markets and the insurance markets all play a part.

Controls over all aspects of these markets operated for twelve years and only in 1957, with the return of a Conservative Government, pledged to the use of monetary policy, instead of physical controls, did freedom begin to return. Though the sterling crisis of September 1957 called a sudden halt to the return to normality, it was followed—as a result of the rapid and effective measures taken—by an upsurge of confidence which enabled complete freedom over credit and exchange to be restored over the course of 1958. But the competition to lend, which then followed—and in which the banks joined—contributed to the new wave of inflationary fears which characterised 1959, leading in turn to new restrictions.

Invisible Exports Up

But these new restrictions were part of what had *now* become a smoothly working machine. Moreover, they were accompanied this year by a strengthening of sterling, as a result of the flow of funds away from the dollar, a flow leading to such activity in the money and gold markets that the City marked the year as the first since 1939, when its institutions had all regained their full stature. Indeed, in some directions, in the investment of foreign funds, for instance, the City has evolved new services which have enhanced its reputation—and needless to say, its income. It is, indeed, now estimated that the country's invisible income through financing and commercial services amounts to some £150 million a year.

But, in one respect, London's services have diminished. In the five pre-war years, one-sixth of the new capital raised in London was for overseas countries, the majority for the Commonwealth. But, last year, less than a tenth was for overseas and only some seven per cent. for the Commonwealth. However, as a result of the change in the value of money, the total amount raised last year, some £450 million, exceeded the annual average of the pre-war years. There are some who think that London is accordingly no longer a significant overseas market for long-term borrowing. In proportion to the total amount of business done this is no doubt correct. On the other hand, commercial, industrial and financial undertakings in the Commonwealth still look to London as one of the likely sources of supply. Governments, on the other hand, look to the international organisations.

For the first nine months of this year, out of some £400 million raised on the new issue market, more than 90 per cent. was for the United Kingdom. It is noteworthy that this total already exceeds the grand total both for 1957 and 1958. There seems little doubt that the total of loans raised by the end of this year will exceed that for 1959. At the other end of the scale, the City has failed signally to assist small companies to borrow and, in spite of the recommendations of the Radcliffe Committee, 1960 has opened no new door.

Sir Oliver's Criticism

But the banks maintain their traditional stand that they are an adequate source of short and medium-term finance and the restrictions on their lending which have continued till the end of 1960 have caused them to criticise increasingly Government policy. Recently, Sir Oliver Franks, the Chairman of Lloyds Bank, strongly attacked the use of restrictions on bank advances as a weapon of financial policy. He said that it was extremely difficult for banks, who usually give loan facilities for periods of a year at a time, to make a sudden change in their lending. Further, even where changes could be made, they are liable to be offset by increased liquidity elsewhere. Two-thirds of the amount lent by banks this year is to large borrowers, that is, those borrowing over £10,000, but, in numbers, these were only 2 per cent. of the banks' credit customers. Many of these large borrowers are in basic industries and export industries and the brunt of the effort of the banks to reduce loans tends to hit all the numerous small borrowers. There, at once, one reaches the difficulty of the banks' obligations to their customers.

Sir Oliver was a member of the Radcliffe Committee and he has repeated the thesis of that Committee, namely, that to cut bank advances is not one of the most effective ways of restricting credit. It may be, he had in mind the fact that the banks can offset a reduction in bank advances by the purchase of securities, but this has not been a recent phenomenon. He did not explain further what he meant but the gist of his criticism is in the point that, in spite of the efforts of banks early this year to conform to Government policy, in the summer bank advances were still at their peak and yet the economy as a whole "had clearly gone off the boil." In other words, the liquidity of the economy as a whole had been reduced, but bank advances themselves had not yet begun to go down.

To some extent, Sir Oliver was overstating his case, since the number of bank credit customers fluctuates—some advances are being paid off while other customers are coming for new advances. The banks can more easily take action against the new customers, but, in this, they discriminate between a number of activities for which the money is wanted. It is all very invidious and the banks do not like it.

Although this sort of criticism is one of technique rather than of financial policy as a whole, there is increasing doubt on the correctness of a restrictive policy at the moment. This was brought out by the phrase that the economy had "gone off the boil" in Sir Oliver Franks' speech. If the economy has gone off the boil, then monetary policy should no longer be restrictive. But the year, from the point of view of the inflation indicators, has been an anxious and puzzling one.

From January, the ordinary share indices moved down with occasional sharp upbursts (as in March) to a low point at the beginning of May, nearly 12 per cent. below the starting point. From that time till early September, the trend was reversed and stock exchange dealers spent their time wondering how to get hold of all the stocks demanded. A rise of nearly 14 per cent.—interrupted by a slump in June-July—took the indices upto a new high point for the year. But from that time dealers have had to move far more cautiously in an uncertain market.

Patchy Picture

In the autumn, the motor car industry went into the doldrums, other durable consumer goods such as refrigerators began to stock up, furniture manufacturers complained of lack of buying and—most significant indeed—the hire-purchase companies, whose operations had already been curtailed by the credit squeeze now suffered trouble because cut-income-customers could not meet their obligations.

But this unease is not general. Some capital goods and constructional industries are prospering and the general picture of the economy is patchy. In October, for instance, manufacturers' sales of carpets, etc., were 7 per cent. higher than a year ago, following on a period when they were 10 per cent. higher. The hosiery industry sold 9 per cent. more in the past quarter than a year before. The engineering industries had more orders on hand at the end of September than any time in the past two years. The total of net new engineering orders was 9 per cent. higher than the year before and the rate of deliveries was higher than at any time in the past two years. It is encouraging also to find that, in those engineering industries, which cover heavy electrical goods, railway equipment, and heavy commercial vehicles, export orders have actually been higher than ever before and 17 per cent. higher than at the end of 1959. It is provisionally estimated that the volume of production in the engineering and electrical goods industries in September was 2 per cent. more than in the year before, while for the whole of the third quarter it was 5 per cent. more.

But, again, it is trends at which we must look, and, although the situation of the industry in itself seems satisfactory, it is not so when one compares it with an increase of 12 per cent. in the first four months of the year and of 8 per cent. in May and January. It is clear that there is a fairly rapid slumping in the rate of growth. The section of the industries producing engineering consumer goods remains the most depressed. The volume of exports of engineering and electrical goods in the third quarter of this year was 8 per cent. more than the corresponding period of last year, *but* the exports of engineering products have nevertheless been falling since the first quarter of this year.

Even in the versatile plastics industry, one finds that, after allowing for seasonal fluctuations, the level of total sales in the first three quarters of this year has been fairly static, stocks are now building up and the immediate prospects are modest.

The index number of industrial production as a whole is estimated provisionally at 128 for October this year, which is five points higher than a year ago. But, if one takes the seasonally adjusted index, the October figure, though about 3 per cent. higher than last year, shows a slight decline on previous months. Indeed, since the spring, the production index has remained more or less static. In the first ten months of 1960, the index averaged 121 (taking 1954 as 100), as compared with 112 in the corresponding period of 1959. But this simply reflects the rapid increase in production last year which continued until the spring of this year following the trend of 1958. The disquieting thing is that production is stubbornly static, if not actually weakening.

Yet, in the face of all this, the Government shys away from an imagined spectre of inflation. The Chancellor of the Exchequer has seen over the year American expansion level off and the prices of primary products falling. He sees the international payments scene clouded by German accumulation of reserves and has now declared roundly that "the balance of payments is not satisfactory" and "exports are not high enough in relation to imports."

But he still insists that, at home, there is still too much pressure of demand upon available resources, that labour and materials are still short, and that costs and prices accordingly tend to rise.

Murky Depths Ahead?

The Chancellor is in a most informed position to judge, so that one cannot dismiss his analysis. And yet, when he says "a great deal of restraint and leadership will be required if we are to avoid an inflationary spiral again," many are fearful that he cannot see beyond the immediate present into the dim and murky depths towards which the economy may be trending.

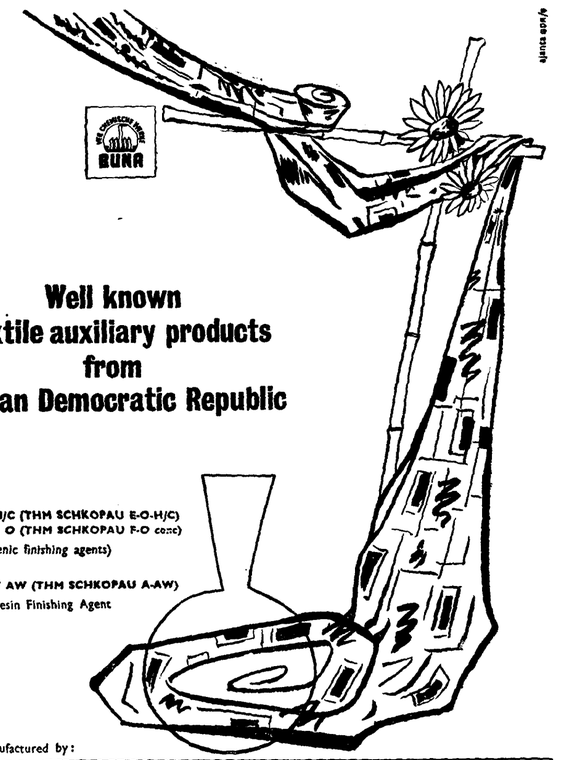
Perhaps this myopia is due to the fact that investment at home in manufacturing industry is expected in 1960 to be 24 per cent. up on 1959 and is forecast to rise a further 20 per cent. in 1961; more probably to the insistence of the Government that it will only use monetary means (which means credit restriction) to steer the economy—hence it dare not let the reins go till it is sure the horse has stopped! By which time it may be moribund.*

Balance of Payments

And so we come to the external monetary positions where detailed figures for the first half of 1960 only are available. In that period, visible trade payments for imports exceeded receipts for exports by £27 million (mn.) Net income from invisibles brought in £62 mn. An increase in Government payments overseas by £27 mn. was offset by a rise in net shipping income of £7 mn. and in interest profits and dividends of £23 mn. Thus, there was an overall favourable balance on

(Continued on page 120)

*A day after this letter was posted by our correspondent, the British Bank rate was cut from 5½ per cent. to 5 per cent. This was the second reduction in the last quarter of 1960; earlier, the Bank rate was lowered from 6 per cent. to 5½ per cent. on 27th October, 1960



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Some Issues of Monetary Theory and Policy in a Real Liquidity Conscious Economy

By Dr. P. R. BRAHMANAND

READER IN MONETARY ECONOMICS, UNIVERSITY OF BOMBAY

[Issues of monetary theory and policy have been subjected to high-powered discussion in recent years. Most of the discussion, explicitly or implicitly, accepts the economic background of the developed countries. However, the monetary situation in the Indian economy (and similar economies) is basically different from that in the developed countries. The liquidity problem appears in a new and different light in these countries. Even the quantity theory of money is of limited assistance in understanding why and how prices change. The present paper highlights the importance of different approach to monetary studies under Indian conditions. The goals and instruments of monetary policy have to be correspondingly modified under these conditions.]

THIS note seeks to examine the broad factors that determine the general level of prices in an economy like India and to throw some light (or confusion, as the readers may like to have it!) on the relation between interest and prices under the economic conditions of India. Traditional economics answers this question by highlighting the influence of changes in the quantity of money supply. Keynesian economics postulates an indirect relation through the effects of money supply upon interest, interest upon investment and investment upon output. As money supply expands, the level of prices rises, because of the rising (real) supply price of output. In traditional economics, the supply of output cannot be altered in the short-period: hence an increase in money supply would tend to increase aggregate expenditure proportionately and, as a result, lead to a proportionate rise in the level of prices. One leading version of the quantity theory of money emphasises how, other conditions being equal, the price level would tend to fluctuate in the same proportion as money supply.

In an underdeveloped economy like India, it is believed that Keynesian economics has serious limitations. From this, an opposite conclusion is normally drawn that the quantity theory of money would or should tend to hold true under Indian conditions. If prices are rising, the villain of the story is, therefore, the Government or the banking system which is expanding money supply out of proportion to the rate at which the production capacity is expanding. A close study of economic conditions in India, however, reveals that the level of prices fluctuates rather violently and not all these fluctuations are due to seasonal factors. Sometimes, even when aggregate money supply has not altered, the price level would fluctuate. How to explain this? If price changes occur solely or largely due to changes in money supply, how to account for the violent fluctuations in prices occurring independently of changes in supply of money? If money supply is constant and yet prices rise or fall, the traditional way of escape is to assume that velocity of money must have altered. If steep fluctuations in level of prices occur, then the velocity of money too must be subject to steep fluctuations. But then this is not a comfortable way of escape; for, it is usually fashionable among quantity theorists to assume *quasi*-constancy in velocity.

Assuming that velocity does change and pursuing the cash balances approach, the question is why the proportion of real output held in the form of active money balances should undergo such violent shifts. The proportion of real income held in the form of active balances tends to depend upon the volume of real output. If the latter does not change much, then, obviously, there is no reason why the proportion of active balances to total money should rise or fall. But then does Keynesian economics provide a way out here? The proportion of money held in the form of active balances might rise or fall, depending upon the strength of the speculative motive. The speculative motive, however, assumes that the alternative to holding money is to hold bonds. If bond values are expected to fall, the proportion of active balances to total money supply should be reduced. This situation co-exists with a state of reduced real income and employment.

However, in an economy like India, the bond-holding habit is not widely prevalent. Nor does the speculative motive, oriented by uncertainty in capital values, appear to be very important. But yet prices do rise and fall.

II

In recent years, monetary economists have given great importance to factors determining the demand for various categories of liquid assets. Money itself is supposed to be the leading species of a large genus. (Bank deposits, the leading monetary item in the developed economies is supposed to have become the small change of the economic system!) Fixed deposits, savings bank accounts, deposits in building societies, prize bonds, short-dated Government paper, trade credit, these and similar assets are supposed to be as good as money. Each of these assets is a store of value. However, in the extreme short run, currency and demand deposits are the most effective liquid assets. The longer the time dimension we adopt, the more would other assets partake the characteristics of money proper. Thus, the distinction between money and other liquid assets is one of degree rather than of kind. It is the dimension of time that makes some assets money and some other assets *quasi-money*. Much of the post-Radcliffe confusion on this issue could have been avoided, if the highly convenient Marshallian time analysis approach had been applied to these problems. The conclusion to which this analysis leads us is that, in the extremely short run, the total volume of effective demand for goods and services that can be generated would, other conditions being equal, be limited by the quantity of money. (The Radcliffe Committee puts trade credit on a par with other assets. However, it is pertinent to note that Irving Fisher did consider changes in the quantum of trade credit in his discussion of factors affecting velocity. In fact, on the basis of Fisher's approach, many of the factors which the Radcliffe Committee considers as affecting the stream of demand for goods and services would have been discussed under the factors determining changes in velocity. Thus, whereas the former writers would have argued that the supply of money being given changes in velocity would lead to changes in effective demand, the Radcliffe approach would emphasise the existence of liquid assets other than money as affecting the stream of money demand, the concept of velocity not being used at all.)

Howsoever exciting the post-Radcliffe debate on money and/or liquid assets appears to be in the context of the monetary economics of developed countries, the relevance of such discussion in the Indian context is highly limited. This is because of the basic underlying fact that the Indian economy suffers from an acute shortage of real liquid assets in relation to the current level and fluctuations in the volume of real output. It is generally known that a poor economy is poor because of a low ratio of fixed capital per worker. It is not, however, widely appreciated that a similar situation would be true in regard to the ratio of real liquid assets to output. The aggregate quantity of real liquid assets or various forms of working capital would generally depend upon the quantity of output to be produced in the economy. If output capacity is greater than realised output and some factors in the economy are unemployed or underemployed, one of the important reasons would be the non-availability of adequate quantities of real liquid capital. Given the level of real wages, the rate of raw materials necessary in the production process, and the length of the production periods in the leading sectors, there is a technical relation between the level of inventories and the quantity of outputs that can be produced. If the flow of output is unaffected by external shocks, and there are no individual or collective uncertainties on this score, the level of inventories that actually rules in the economy may be stated to determine uniquely the quantity of output that will be produced. In this case, the demand for inventories is the transaction demand arising on account of technical conditions of the production process. (The lower the level of real wages the larger the output that can potentially be produced with any given level of inventories.)

The above, however, is a static case. There are several uncertainties affecting the psychology of the different individual producers, and, under Indian conditions until recently, there was no collective assurance against the impact of uncertainties. Thus, it is generally true that, over and above the transactions demand for inventories, there is also the *precautionary* demand. The total quantity of food and raw materials held on this score depends upon the sum of the impact of uncertainties in the minds of individual producers, traders, Government and *quasi*-Government agencies, etc.

One of the chief characteristics of an underdeveloped economy like India is that output is subject to fluctuations depending upon the weather conditions—and, in a larger context, upon changes in foreign trade situation. Thus, agricultural output, for example, would fluctuate widely depending upon rainfall. With the best of intentions and instruments in the world, it is difficult to predict the impact, intensity and timing of these shocks accurately. Even if one can do so, in a poor economy, adequate resources are not available to countervail these fluctuations. For example, the demand for inventories in the case of the producer-consumer classes, arises primarily because of own-demand for consumption in the production process. (It is so *very* difficult to distinguish between productive and unproductive consumption on the part of subsistence and near-subsistence farmers. A loan for consumption in such cases is a loan for production; for, if the farmer does not have the capacity to consume, certainly he has a little or no capacity to produce. Hence, in the absence of timely loans, the impact on the community in a welfare State of additional grain demand would be greater still.) Thus, the demand for commodity balances is a highly important motive in the accumulation of inventories. In the case of non-foodgrain industrial producers, too, fluctuations in the level of agricultural output due to climatic reasons affect the flow of supplies violently. Hence, adequate precautionary stock-building is necessary in these cases also. Even the grower of commercial crops may have to store some raw materials, in order to meet his real needs in the event of climatic fluctuations.

Thus, given the factor of climatic fluctuations and export uncertainties, the different sectors of the economy have to accumulate some inventories in order to forestall unexpected emergencies. To the extent that these emergencies can be foreseen, though imperfectly, grain or commodity holding can help. However, over the longer run, the search for real liquidity takes the form of the holding of cash and/or of gold.

The reason why gold is the most preferred medium in the search for real liquidity is that commodity hoards are perishable and imply considerable storage costs. Hoarding in terms of money and/or gold ensures command over commodities in general, whereas specific commodity hoards suffer from the risk of relative depreciation in exchange. If the purchase price of gold is relatively high, commodities may serve as media for short hoarding. Gold is generally preferred to cash, as the latter does not yield any consumption utility by sheer possession, and might depreciate in value as a result of a rise in the general price level. Though bonds yield a certain income in terms of interest, they are liable to fluctuate in value. Thus, there is a strong tendency to hoard gold. The low state of development in banking and financial institutions, the non-availability of a wide range of liquid assets and similar factors strengthen the above tendency.

Thus, apart from the transactions demand for commodity balances, the impact of the increased accumulation due to the precautionary motive has to be taken into account. Over and above this, the demand for inventories, arising on account of the speculative motive, is a highly important additional factor. If prices do fluctuate widely in the short-period, those who have liquid balances in the form of money, gold or commodity hoards can make handsome profits during distress (actual or expected) periods. The profit margin in this connection is generally very high. To the extent that this is so, it pays financiers, traders and merchants to keep some part of their resources in liquid hoards with a view to converting them into

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commodity hoards in periods when scarcities are expected.

It is true that, to the extent that liquid resources are kept in the form of cash or gold, the speculators forgo the yields they would have obtained if they had invested their resources in bonds or stocks. Under these conditions, the lower the general run of yields on bonds and stocks, the stronger would be the propensity to be real-liquid. It pays the speculators to convert money liquid balances into commodity hoards immediately prior to the period when different prices are expected to rise. In essence, therefore, it is true that, over the longer run, the speculative motive for liquid assets is an important factor even in an underdeveloped monetary system.

The alternative to gold, cash and commodity hoarding is holding of bonds, bank deposits and/or stocks. It is generally true that, when speculation in commodities gathers momentum, even bonds and stocks are sold. There is always a possibility that bond values may fall; hence it pays speculators not to hold liquid assets in the form of bonds and/or other forms of assets which are less real-liquid than money or gold. The speculative motive is, therefore, one of the most important reasons why the bond market has not developed in India. So long as the yields are low, adequate short-term liquid assets are not available, steep fluctuations in prices in the short-period do occur, the productive saving habit does not have much scope for development. If gold is not available, then, commodities are held. (As noted earlier, cash happens to be an inconvenient medium when prices are expected to rise.)

The extremely important factor to be noted here is that, under conditions in which liberal supplies of gold are available (and/or gold prices are low), the public would not like to keep too much of liquid assets in the form of commodities. *The lower the level of gold prices, the lower the quantity of commodities held for satisfying the craving for real liquidity.* (If gold disappears from the scene—a remote possibility—hoarding will not disappear. It is incorrect to argue that it is because of availability of gold that people are forced to hoard gold.) What is important is the strength of the propensity to hoard. The media of hoarding is a relatively less important issue. So long as output fluctuations occur and corresponding countervailing arrangements are not being made, the hoarding propensity will always be strong in a poor economy.

III

It is, however, obvious that, in the economy as a whole, the ratio of real liquid assets is not sufficient to introduce an even rate of economic activity and lead to price stability. It appears that real liquid assets are not adequate even to satisfy the craving for some sort of security regarding flow of income or consumption. The unfortunate factor is that so long as price fluctuations are bound to occur and in a violent fashion, speculation in real liquid assets or *quasi*-real liquid assets cannot be prevented. The serious effect of such speculation may be depicted by means of an arithmetical example. Let us assume that a community produces a normal output flow of 1,000 units. The technical ratio of stocks to output should be 5 : 1. At any point of time, the community will have 200 units as inventories if the production flow is to be constant. Suppose in Period II, production is expected to be reduced by 20 per cent. because of climatic adversities. Thus, in Period I, inventories will have to be around 240 units, if the production flow in the second Period is to be uninterrupted. For, wage and other consumption payments cannot be suspended when production declines. The community has to survive along and live through the crisis. Short-period real wage adjustments are rather difficult: hence, if in Period I stocks are at 240, then, production in Period II would be the best in the circumstances. Thus, in Period I, the required commodity stocks are made up of 200 plus 40 units; however, if the economy has only 200 units as balance, only 160 will be available for production flow in Period I itself. This yields a production of only 800 in Period I.

The relationship in actuality will be more flexible than is imagined above. But it is obvious that, unless the economy already has some stocks over and above what is required for purely transaction purposes to produce a given quantity of output, there is every possibility that output would fall and the situation in the second Period will be aggravated and not eased. Add to this, the impact of the speculative motive. For example, if, as a result of the strength of this motive, commodity balances are reduced from 160 to 120, production in the first period would be reduced to around 600. Thus, assuming that output in Period II would fall from 1,000 in Period I to 800, the economy requires stocks of 280 in the initial situation to overcome the impact of precautionary and speculative demands. The stronger the precautionary and speculative motives, the larger the ratio of stocks to output will have to be, if the production process is to be continued at the maximum capacity. The most difficult factor here is the impact of the speculative motive. Unless increased demand for real liquidity generated by the speculative motive is countered by releases of commodities through Government and/or institutional stocks, the situation will not be remedied and the current flow of production will be reduced. The speculative motive is not something which is peculiar in an underdeveloped country. It exists in all countries. In an underdeveloped country, however, its impact is felt largely in the commodity markets, whereas its impact is on the bond and stock markets in developed countries.

We have noted above how the current flow of production depends largely upon the expectations regarding external shocks whose impact may be felt in the subsequent periods. However, because of the psychological repercussions that these shocks create and the absence of countervailing stocks in the economy, the production in the current period itself may be adversely affected. The chief objective of monetary-cum-fiscal policy will have to be to counter the inhibiting impact upon the flow of output of such adverse shocks and resulting expectations.

IV

Let us now examine a little more closely the short-period situation in an underdeveloped economy. About 50 per cent. of the contribution to national output directly flows from agriculture. The non-agricultural sector depends upon the agricultural sector for both foodgrains and industrial raw materials. The level of activity in the non-agricultural sector depends upon the volume of marketable surplus of agricultural crops and in particular foodgrains. The ratio of marketable surplus to output in the long-run depends upon the level of output in agriculture. Fluctuations in output affect marketable surplus more than proportionately. It is a common phenomenon in India that even small fluctuations in output lead to large fluctuations in the marketable surplus. If agricultural production grows at a substantially faster rate than population, the long-run proportion of marketable surplus to output would have a tendency to rise.

Apart from the level of output in agriculture, this proportion is also dependent upon a number of other factors. For example, the larger the liquid resources at the command of the farmer the lower would be the proportion of marketable surplus. The larger his cash commitments (current and prospective), the higher would be the proportion. The cash commitments depend upon the level of money wage rates ruling in agriculture and the proportion of money-wage payments to the total. There are again commitments in respect of direct taxation paid in money. Another important factor is the extent of interest payments that the farmer has to incur; as also the extent of repayment commitments. The consumption habit of the farmers in regard to non-foodgrains and other industrially produced commodities is also a relevant factor in determining the cash needs of the farmers. Many of these factors are, however, stable in the short-run. Hence, they would not tend to have a large bearing upon the extent of the commodity surplus that is actually marketed.

The chief short-run factor which would affect this ratio would be the level of gold prices and the rate of interest on credit obtained or obtainable by farmers. The level of the rate of interest symbolises the current state of availability of liquid resources and the expectations thereof. Other conditions being equal and given the state of expectations, the farmer has a choice in regard to the proportion of his free resources distributed in the form of various liquid assets i.e. gold, claims on goods, commodity hoards and cash. The lower the level of gold prices, the less of commodity hoards he will have and, naturally, the proportion of marketable surplus would rise. It may be that the farmer might actually reduce his outlays in other respects, for example, reduce his own consumption or real or money wage payments. Again, the higher the rate of interest the larger would be the proportion of marketable surplus. This is because a high (rather higher) rate of interest creates expectations in the minds of the farmers about the difficult credit-situation ahead. The farmer has certain fixed cash commitments. It is necessary, therefore, for him to equip himself with increased liquid resources. Normally, the higher the rate of interest, the lower would be gold prices. This is because the rate of interest, in essence, under Indian conditions and in all poor economies, is a price paid for surrendering real-liquidity preference. Given the strength of the latter, the higher the rate of interest, the lower would be the aggregate demand for real-liquid assets. In essence, the rate of interest, therefore, is a price paid for surrendering gold-preference, inasmuch as gold is the most acceptable real-liquid asset, particularly in the context of long-run fears about rising prices. Interest, therefore, is the opportunity cost of holding gold.

In an economy in which gold is given increased real-liquidity preference, gold prices tend to rise. As the economy, however, has no more gold than is available, the public shifts to commodity holding. Prices of foodgrains rise sufficiently to make commodity holding an equally attractive proposition as compared with holding of gold. Thus, rising gold prices and rising commodity prices are symptoms of the same basic malady. Now, when the rate of interest rises, and sufficiently sharply, the attractiveness of holding gold and other liquid assets diminishes somewhat. A rise in the rate of interest creates expectations that credit will not be easily available; it increases the attractiveness of holding various forms of short-term deposits and other assets: at the margin, it renders speculative activities connected with commodity holding less profitable. A rise in the rate of interest thus seeking to bring down gold prices would encourage farmers to part with more marketable surplus in view of the fall in gold prices. To the farmers, a fall in gold prices would be a symbol of easy commodity-price situation ahead.

V

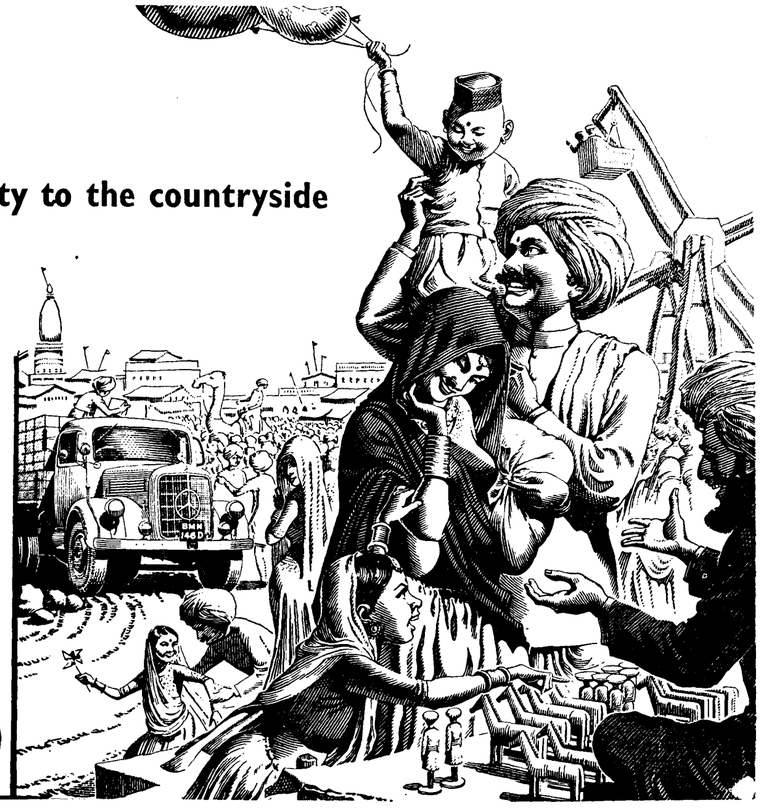
Let us now see how the short-period situation in a poor economy is affected by shifts in the marketable surplus proportion. We assume that the authorities have not devised adequate counter measures.

The level of activity of the non-agricultural sector depends upon the marketable surplus of agriculture, particularly of foodgrains. If climatic conditions are expected to be adverse, there is a fall in the proportion of output that is marketed. Other conditions being equal, this leads to a steep rise in the level of prices. Obviously, it is the possibility of such violent shifts in the level of prices that enables holders of liquid resources to reap quick profits. Some portion of liquid resources in the economy in the form of cash deposits and gold would be kept in an inactive form depending upon the strength of the speculative opportunities available in this respect. To the extent that a major portion of money is in the form of currency and that the technical limit in respect of velocity has not yet been obtained, it is always possible for large quantities of currency to come into the open in periods of expected climatic shortfalls and to be traded in exchange for commodities, with a view to making speculative profits. The lower the ruling rate of interest, the less the profit opportunities forgone by keeping money and other liquid assets idle. A steep price shift will give sufficient profit to compensate the speculator for the interest forgone over long periods. Some part of gold is also held with a view to making speculative profits on commodity shortfalls.

No doubt, whenever some climatic shortfall is expected, a certain quantity of grain and other commodities will have to be held back. Over and above that which is technically required to even out flow of supplies, speculators will make the community seek to hold more of the grains. As a result, the current flow of the grain and commodity surplus is reduced. This leads to a fall in the level of activity in the non-agricultural sector. It is suddenly found that there is an excess of money. Available money balances bid against a limited quantity of commodities and the price level goes up, in the first place as a result of the fall in the marketed surplus, and, in the second place, as a result of the pressure of additional speculative demand on the part of the non-agricultural producers. Everyone seeks to solve for himself the problem of impending shortages. Trader holding becomes converted into consumer and user-holding. All this, no doubt, reduces the current level of activity to a lower level than what was the case.

However, when commodity shortfalls actually materialise, many farmers are forced to sell the gold and money that they had accumulated earlier to buy their needs at fancy prices. Thus ultimately, liquid assets are redistributed more in favour of those who had more liquid assets in the initial stage.

(*Continued on page 176*)



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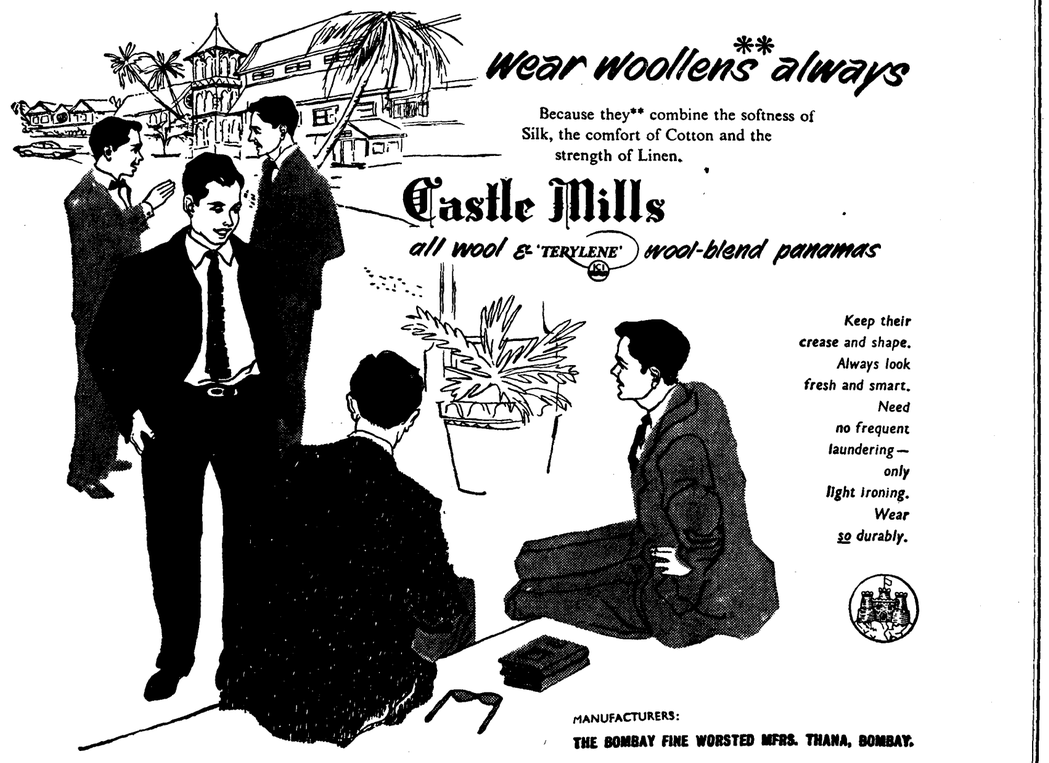
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FINANCING INDIA'S THIRD PLAN

Assumptions in the Draft Analysed

(Contributed)

WITH a total outlay of Rs. 11,250 crores in a period of five years, from 1961-62 to 1965-66, the Draft Outline of India's third Plan proposes to finance nearly one-third of the Plan outlay of Rs. 7,250 crores in the public sector by foreign aid, a little less than one-third by public revenues, and a little less than one-fifth from public borrowings in India, including small savings. It is remarkable that the share of deficit financing at Rs. 550 crores for the five-year period has been kept at the level of less than one-twelfth of total outlay.

The three recognised principles in the case of economically underdeveloped countries are that (i) such countries have to depend to a considerable extent on foreign aid for accelerating their rate of economic growth not only because capital formation in such countries is inadequate but because they lack the necessary technical skill, know-how and machinery which have to be imported from the more developed foreign countries; (ii) due to a high propensity to consume in the case of these countries, the people are able to save only a small proportion of their incomes and, consequently, a greater reliance has necessarily to be placed on taxation rather than on public borrowings for financing the Plan outlay; and (iii) due to the overall paucity of financial resources as compared with the requirements of a developing economy, it is necessary to resort to deficit financing to a fairly considerable extent to provide the necessary resources to the Government to accelerate the tempo of economic development.

Foreign Aid

In spite of the great importance of foreign aid, the main reliance for accelerating India's economic growth has necessarily to be placed on internal resources. The yield from the different taxation and other measures which the Government adopts for financing the Plan is a matter of opinion. But whether any particular scheme is good or bad in the context of the actual conditions prevailing in India will have to be judged primarily on the basis of its inflationary impact on the economy, which is already suffering from inflation. Any method of financing the third Plan, whatever its other advantages, cannot, therefore, be considered suitable if its impact on the economy would be highly inflationary.

Apart from its other advantages, the real merit of foreign aid for financing the third Plan consists in its deflationary character. During the first Plan, inflation in India was kept in check because of our sterling balances which enabled us to import goods to counterbalance the increased purchasing power in the hands of the people on account of the increased spending by the Government. Due to the increasing balance of payment difficulties and a serious depletion of our foreign exchange reserve, this cushion was not available during the second Plan, with the consequence that inflation went out of control and created many new difficulties. As the Union Finance Minister told the Lok Sabha, India's sterling balances had further declined from Rs. 189 crores at the beginning of the financial year 1960-61 to Rs. 141 crores in November 1960 and the country's balance of payments position continues to be adverse. In these circumstances the only hope of importing the much needed machinery, raw materials and technical skill, for further production, and foodgrains and some essential consumer goods is through foreign aid. But, unfortunately, adequate foreign aid is not available. The Union Finance Minister's report to the Lok Sabha on his foreign tour in search of foreign aid shows that, while every country he visited is sympathetic to India's needs, the total amount of indicated and committed foreign aid for the third Plan, so far, amounts to only Rs. 750 crores. This is in addition to nearly Rs. 600 crores of P.L. 480 funds. The Draft Outline estimates the total requirements of foreign exchange for the third Plan at Rs. 2,600 crores, apart from the P.L. 480 assistance. This means that, as yet, only a little more than one-fourth of the required foreign aid is "in sight." There is no doubt that more foreign aid would be available as the third Plan proceeds and for all we know the total estimated amount of Rs. 2,600 crores might be available. But, if either the *actual requirements* of foreign exchange for implementing the third Plan are higher than are estimated by the Planning Commission in the Draft Outline, as very much is likely to be the case, or if the already estimated amount is not available, the extent of deficit financing will have to be accordingly increased, if it is desired to have a third Plan of the size of Rs. 10,000 crores.

Loans from the public and small savings as methods of financing the Plan also have the advantage of being deflationary in character as compared with deficit financing. The Draft Outline provides for Rs. 850 crores of loans from the public and Rs. 550 crores of small savings during the third Plan period as against the corresponding figures of Rs. 800 crores and Rs. 380 crores, respectively, during the second Plan. So far as the big businessmen and industrialists are concerned, they prefer to utilise their savings for their own enterprises and are not much interested in Government's borrowing programme. It is only the institutional investors like banks, insurance companies and other corporations that mostly invest in Government securities. So far as the middle-class people, who used to be the main source of small savings and a source of funds for investment in Government securities, are concerned, the savings appear to have gone down very much, if they have not been completely wiped out, because of the ever rising price level. The Planning Commission do not seem to have fully realised the fact that the savings of this class of people depend directly on the price level, because their standard of living is inflexible and they cannot very much reduce their consumption of goods and services without serious consequences. With every increase in the price level, the middle class people are forced to reduce their savings and sometimes to draw upon their past savings. In this way, every increase in the inflationary pressure reduces the supply of savings for investment. It is quite doubtful whether the Government would be successful in raising Rs. 1,400 crores from loans and small savings for financing the third Plan. If, for instance, only Rs. 1,000 crores were available from this source, there would be a further increase in deficit financing to the extent of Rs. 400 crores.

Taxation

So far as internal sources are concerned, the main emphasis of the Draft Outline is on taxation. This source is expected to yield Rs. 2,000 crores, of which Rs. 350 crores are expected to be a "balance from revenues on the basis of existing taxation" and Rs. 1,650 crores the yield from "additional taxation, including measures to increase the surpluses of public enterprises." The Draft Outline does not tell us how this additional revenue of Rs. 1,650 crores is proposed to be raised. But, in a recent speech at Indore, the Union Minister for Revenue and Civil Expenditure, Mr. B. Gopala Reddy, explained that it is proposed to increase the yield of income-tax from Rs. 243 crores in the current financial year to Rs. 300 crores in the last year of the third Plan, while it is proposed to increase the yield of Union excise duties from Rs. 385 crores to nearly Rs. 600 crores. If Mr. Reddy's speech is taken to be an indication of the Government's intention in this matter, it would appear that efforts would be made to secure an additional annual tax revenue to the extent of Rs. 50 to Rs. 60 crores from income-tax, Rs. 200 to Rs. 225 crores from union excise duties and Rs. 80 to Rs. 100 crores from other indirect taxes mostly in the sphere of the State Governments and from the surpluses of public enterprises.

It is unquestionable that the level of direct taxation in India in the shape of income-tax, corporation tax, wealth tax, estate duties, etc., is already very high and there is not much further scope for increasing direct taxation without seriously undermining the incentive of people in the higher income groups to save and the incentive of *entrepreneurs* to undertake new investment activity. The main burden of additional taxation has to fall on consumers through an increase in indirect taxation and the prices of services provided by public enterprises. Would the consumers in India be able to bear this additional burden without breaking down under the strain? Would the effect of this degree of indirect taxation not be highly inflationary?

Indirect Taxation

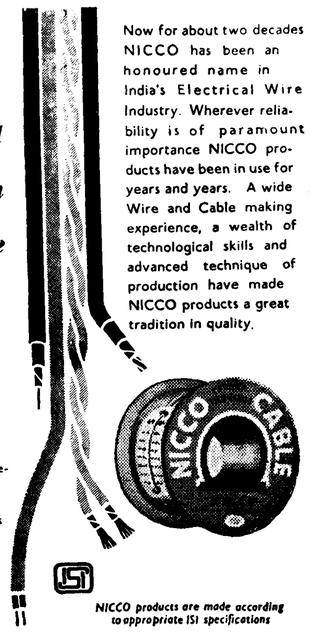
The chief criticism against increasing indirect taxation to the extent envisaged in the Draft Outline of the third Plan is that it would be highly inflationary and would thereby defeat its own purpose. The inflationary effects of indirect taxation could be reduced if (i) the levy of additional taxation on industrial raw materials, power resources and intermediate goods needed by producers is scrupulously avoided; (ii) the wage rates of industrial and other workers are frozen at the present level for the duration of the third Plan; and (iii) the sales taxes in the States are replaced wholesale by Union excise duties as in the case of textiles, sugar and tobacco so that a uniform taxation policy might be

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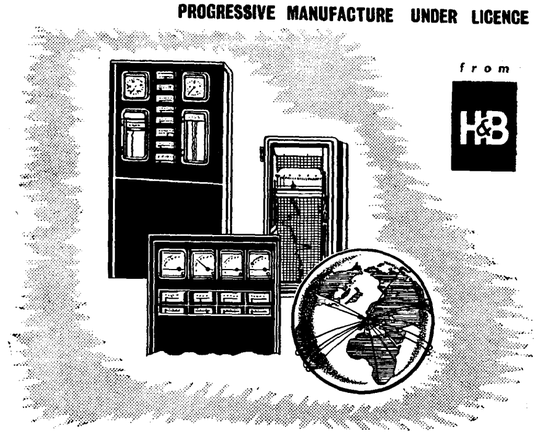


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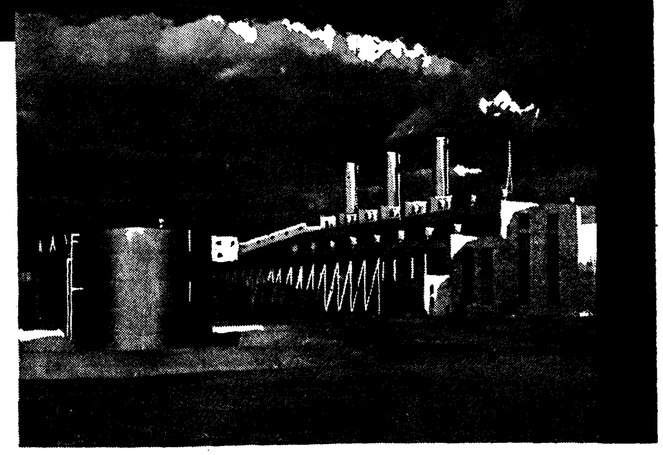
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followed and the burden might be distributed more fairly between the different categories of people.

But, in their present temper, the State Governments are not likely to agree to a wholesale replacement of sales taxes by Union excise duties, though this might bring more revenue to each State Government than it is able to get from the sales taxes, while, at the same time, reducing the burden on trade and industry and the consumers. The trade union leaders and others are not likely to agree to freeze the wage rates at their present level. Since the need for additional revenues is great, the Central and State Governments would not, in all cases, be able to avoid taxing industrial raw materials, power and intermediate goods. The conclusion, therefore, is irresistible that additional indirect taxation to the tune of an average level of Rs. 330 crores per annum would prove highly inflationary. If the additional sales taxes, Union excise duties and other taxes increase the prices of consumer goods and if the higher prices charged for their services by public enterprises also add to people's costs of living the industrial workers and others are bound to demand higher wages and get them. This would add to the costs of production of industry. If industrial raw materials, power and intermediate goods are taxed more heavily, the costs of production of industry are bound to increase still further. This would add to the inflationary pressures through cost inflation.

Price Rise

Although the Government and the Planning Commission somehow assume that a part of the additional sales taxes, Union excise duties and the other indirect taxes would partly fall upon the producers and would, to that extent, not increase the price level, the experience in India over the past ten years shows that the prices of goods rise more than the amount of the tax imposed. This means that an increase in indirect taxation should be expected to bring about a proportionate, if not a higher, increase in the prices of goods subject to taxation.

The amount of additional revenue which the Government would be able to raise during the third Plan period is not dependent on the need of the country for economic development or the theoretical nicety of increasing the Government's total tax revenue from 8½ per cent. of the national income to 11 per cent. It directly depends on the people's capacity to bear it. If it is granted that inflation under the second Plan has already imposed a heavy burden on people whose standard of living in real terms, taking a general view, has actually gone down and if it is further granted that the people's capacity to bear any further burdens without creating chaotic conditions is strictly limited, the conclusion would emerge that it would not be possible for the Government to raise an additional average revenue of Rs. 330 crores per annum during the third Plan including the surpluses of public enterprises but excluding the additional revenue from existing rates of taxation and surpluses of public enterprises on the basis of the existing price policies. It is very difficult to estimate the possible additional revenues which might be raised from taxation without actually destroying the economic fabric of the nation which the Five-year Plans are so studiously trying to build up, but the chances are that the Government and the Planning Commission would be lucky if they are able to raise an average additional revenue of Rs. 200 crores per annum for the Central and State finances taken together or a total additional revenue of Rs. 1,000 crores over the third Plan period.

If the above analysis is correct, it would be necessary to resort to deficit financing to the extent of Rs. 1,550 crores during the third Plan period, if not more, rather than a mere Rs. 550 crores envisaged by the Draft Outline. Would this degree of deficit financing, with its highly inflationary potential, be safe during the third Plan? The question about the "safe limit" of deficit financing is not easy to answer. But, during the first Plan, a deficit financing to the extent of a little less than Rs. 435 crores did not produce inflationary effects and the Planning Commission seem to consider a limit of Rs. 550 crores safe for the third Plan as they included this level of deficit financing in the Draft Outline. We might, therefore, come to the conclusion that the Indian economy might stand deficit financing to the extent of Rs. 100 crores per annum, on an average, but no more if a breakdown is to be avoided. This would mean that the third Plan will have to be contracted to a more manageable limit. But, as has been frequently emphasised by the Government spokesmen, a reduction in the size of the third Plan is not possible, as that would jeopardise the Plan itself.

This seems to create a dilemma. It could, however, be resolved, if the Planning Commission and the Government take a realistic rather than an idealistic view of the matter and increase the share of private enterprise in the Plan outlay from Rs. 4,000 crores to, let us say, Rs. 6,000 crores and reduce the share of the public sector correspondingly. India's private enterprise possesses resources which could be utilised for financing the third Plan without creating *highly* inflationary conditions and without imposing unbearable hardships on the people through higher taxation. India's private enterprise would also be able to attract more foreign capital than public enterprise has been able to do on Government-to-Government basis. This would not only help in the smooth financing of the third Plan but also in solving the foreign exchange 'crisis' which India continues to face for the past many years. Except for its political appeal, which is also on a decline, the greater share given to public enterprise in the third Plan has no justification whatsoever. It would appear that the Indian nation cannot at present afford the luxury of artificially boosting up the public sector of the economy on purely ideological grounds.

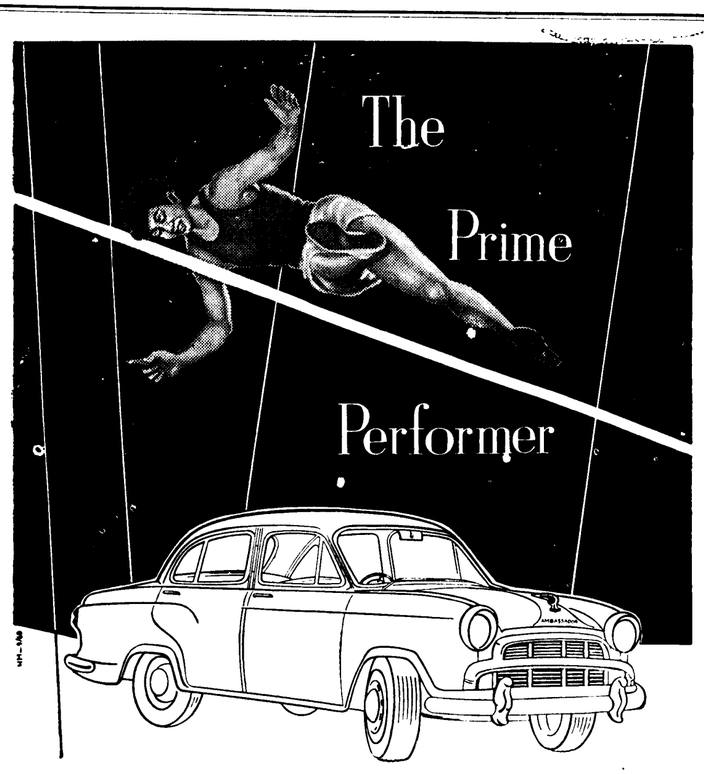
ECONOMIC TRENDS IN BRITAIN

(*Concluded from page 112*)

current account in the first half-year of £35 mn.—divided between a non-sterling area *deficit* of £82 mn. and a sterling area *surplus* of £117 million.

Out of this current surplus, investment overseas has to be financed and on the capital side we find two items: first a series of capital adjustments in favour of the U.K. of £65 mn. and next a long-term investment abroad of £138 mn. The net effect is a *deficit* on capital and current account together of £38 mn.

In spite of this and in spite of loan repayments to the I.M.F. of £30 mn., a heavy inflow of funds from non-sterling countries—a measure of the lack of faith in dollars and of London's high interest rates—swelled the gold and currency reserves by no less than £56 million. The second half-year has witnessed a continuation of such movements, but it is salutary to remember that what counts in the long run—the current balance of payments—is no longer favourable enough to finance overseas investment.



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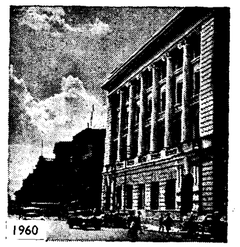
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RAILWAYS IN THE SECOND PLAN

Major Targets Would Be Reached In Time

By KARNAIL SINGH
CHAIRMAN, RAILWAY BOARD

RAILWAYS have always been the link between raw materials and the factory, factory and the consumers, fertile agricultural areas and the millions who depend upon the produce of land, by providing cheap transportation and have thus played a dominant role in the planned development of any country. That they will continue to do so for a considerable period is borne out by a study of the pace of industrial growth and the development of railway activities in all countries of the world, where rapid industrialisation and general development has been achieved on a planned basis.

It has been accepted by all economists, who have studied the problem of transportation in countries on the path of rapid development, that maximum transportation could be most economically generated by increasing the carrying capacity of the railway network. Having studied the Soviet Transportation Policy, Holland Hunter, in his Soviet Transportation Policy, has stated:

"In countries where truck transportation has made substantial inroads on the position of the other major carriers, it will seem natural to ask why inter-city truck transportation has not so far developed in the U.S.S.R. A plausible answer would probably emphasise the enormous investment in highways required to permit such transportation. In the United States, citizens have been willing since World War I to devote a substantial part of State taxes to highway construction, involving a huge aggregate investment in this form of social capital. The purpose, of course, has been free movement of passenger vehicles, and the rise of inter-city common-carrier truck transportation has been merely a by-product. No similar pull from the consumer side has existed in the U.S.S.R., and the Government has not seen fit to devote a large volume of resources to highway construction when it was cheaper to expand the carrying capacity of the railroad network."

Capacity Greater

The Indian railways too, under the impact of a planned economy, have been called upon to provide an increasing quantum of service during the national Five-year Plans. The net ton miles, which is a good index of the workload on the railways, and which stood at 26.9 billion ton-miles in 1950-51, will reach a figure of 53.9 billion ton-miles in 1960-61 and is expected to go up to 95.0 billion ton-miles by 1965-66. In other words, with 1950-51 as the base at 100, the traffic carried by the Indian railways in 1960-61 will be 200 and, in 1965-66, it would be 352. With the similar base year of 1950-51 at 100, the passenger-miles would increase to 130 in 1965-66. The graph alongside, indicating the growth in ton-miles and passenger-miles as also the increase in rolling-stock as compared with the year 1950-51, which was the beginning of the First Plan, would reveal, at a glance, the performance of the Indian railways during the three Plan periods. The significant feature that comes to light from a study of this graph is the vastly increased transportation provided by the railways and the improved utilisation of the rolling-stock and their operational performance from Plan to Plan.

Freight Traffic

For taking stock of the progress made by the railways in the second Five-year Plan, it would be necessary to have some idea of the commoditywise increase in freight traffic that has taken place during the second Plan and is expected to take place during the third Plan. The figures are:

(Million tons/year)

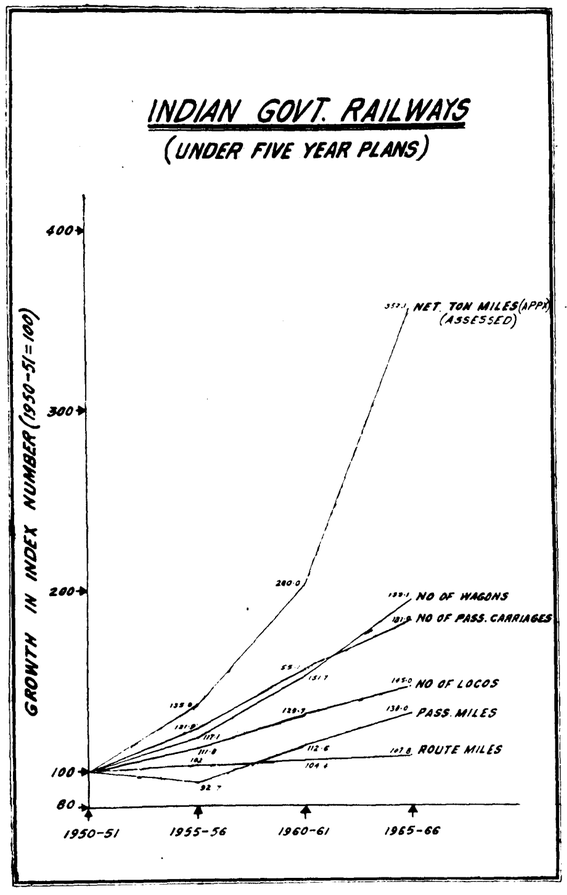
Commodity	Actual traffic in 1955-56	Anticipated traffic in 1960-61 (end of 2nd Plan)	Anticipated traffic in 1965-66 (end of 3rd Plan)
Raw materials and finished products of steel plants	6	16	30
Coal	35	51	81
Cement	4	7	13
Miscellaneous goods ..	69	88	111
	114	162	235*

* This figure is likely to be modified in the light of the revised targets for coal and the setting up of steel plant at Bokaro.

It will be observed that the traffic in raw material and finished products of steel plants and the coal, which formed 36 per cent. of the total freight traffic at the beginning of the second Plan, will increase its share of total traffic to 41 per cent. at the end of the second Plan and to 47 per cent. at the end of the third Five-year Plan. The percentage of mineral traffic will increase still further, if we take into account the phenomenal growth on account of movement of iron-ore for export.

The problems of expansion of rail transportation in India are manifold, the foremost being the need for providing larger increase in transport capacity for concentrated movements in coal and steel belts. Out of the 57 million tons of coal, which is the target of production in the current year, 44 million tons or nearly 77 per cent. will be produced in the Bengal and Bihar coalfields, from where it has to be transported to all parts of the country over leads extending upto 1,000-1,200 miles. In spite of all efforts for the development of outlying coalfields, the high proportion of coal produced in Bengal and Bihar coalfields will continue for a number of years, with the result that heavy movement must take place in the neighbourhood of these fields and long-distance leads for this coal will also continue. Similarly, the location for the raw materials in the steel plants in the same coal area increased the transport demands in this area still further. The production of steel at the beginning of the second Plan was only 1.3 million tons. With the erection of three more steel plants and a substantial expansion of the existing ones, production of steel would reach about 6 million tons ingots by the end of the second Plan and further go up to 10 million tons by the end of the third Plan.

To meet this challenge, almost the entire network of railway lines serving the steel plants and the Bengal and Bihar coalfields will be provided with double lines and also electrified for freight traffic right upto Moghalsarai and upto Rourkela. Further, with the introduction of high capacity wagons for the carriage of coal and iron-ore, it would be possible to haul heavier trains. It would be relevant to point out that, with such a high density of traffic and the rapid increase in the need for transportation, the only practical solution would be to increase the loads of freight trains, and maximise the utilisation of track installation. This will keep down investment which would otherwise be required for double and quadruple lines. In fact, it is invariably the case that, in countries where the average train-loads are low, the percentage of double and quadruple track is as high as 40 to 50, as compared with the 10 per cent. on Indian railways. In the transportation planning of the Indian railways, one of the major steps that have been taken is the introduction of heavier wagon stock and the working of block loads of coal to destinations where dumps would be created for further distribution.



Modernisation of Traction

Another important step which has been taken by the Indian railways is the gradual modernisation of traction by way of electrification and dieselisation. For the present, the major part of the Indian railways is worked by steam traction. Electrified sections are confined to suburban areas of Bombay, Calcutta and Madras and about 117 miles of main line near Bombay. A large programme of electrification of about 1,450 miles has been taken up during the second Plan, of which about 500 miles are expected to be completed, the balance being carried forward into the third Plan. The progressive electrification of approximately 800 to 1,000 miles in each Five-year period will be an important step which will be pursued in future.

Until a few years ago, diesel traction on the Indian railways was confined to a small section near Kandla, where suitable water was not available for steam locos. In order to increase the capacity of goods traffic on sections where electrification would eventually be carried out, 100 B.G. main line locomotives have been pressed into service. In order to cope with the increased tempo of goods traffic, it is proposed to extend dieselisation on other sections during the third Plan for which about 80 to 90 diesel locomotives of all gauges will be put on the line every year during the third Plan.

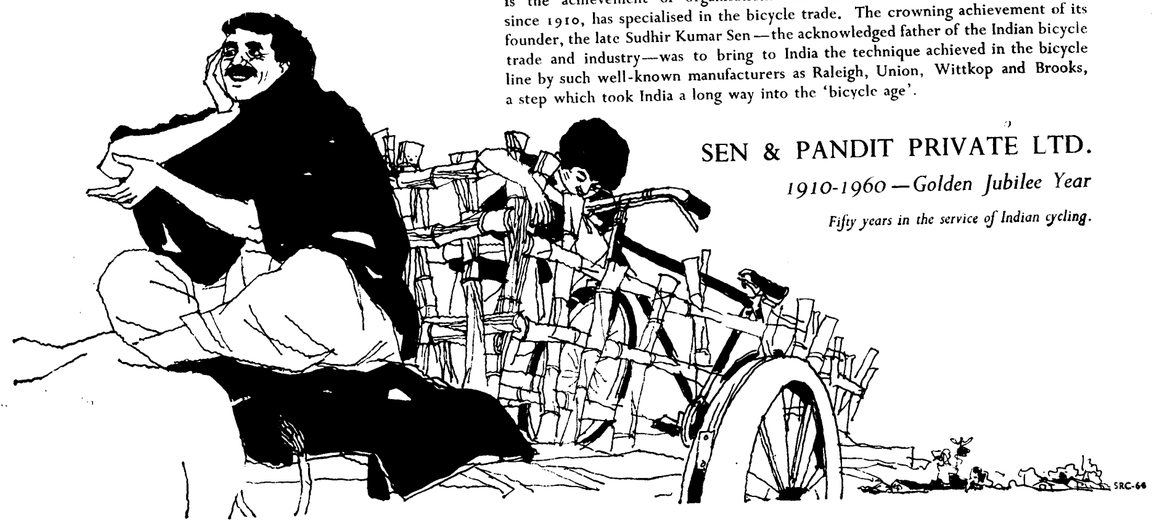
For serving mainly steel and coal plants, Indian railways have, during the second Plan, programmed the construction of 800 miles of new lines. These lines are mostly in difficult mountainous terrain and it is to the credit of the Indian railway engineers that these difficult lines have been constructed and opened for traffic on schedule to enable the coal and steel industries to carry out their expansion programmes. During the third Plan, the programme of construction is expected to be about 50 per cent. more than in the second Plan. Of the lines proposed for the third Plan, the 300-mile link which will connect the port of Vizag with rich iron-ore deposits at Bailadilla in Madhya Pradesh will rank as an engineering achievement when completed. This line which is to negotiate to eastern ghats which

"We can say that we have entered the bicycle age, because today bicycles have spread out into the villages."
—Jawaharlal Nehru

'Of what shall I sing ?
Even our bullock eats like a demon !'

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rise abruptly to the level of 3,200 feet from practically the seal level, will involve the construction of many tunnels and viaducts. The line will be operated with special stock and with diesel locomotives for the export of 4 to 6 million tons of iron-ore to Japan.

Construction of Bridges

The achievements of railways in construction of bridges are very well known. On 1st May 1959, the Ganga Bridge at Mokameh was opened ahead of schedule. This 14-span 6074 feet long rail-*cum*-road bridge carrying a B.G. track on the lower deck and 24 feet roadway and two 6 feet footpaths on the upper deck has broken a major transportation bottleneck and has increased the capacity for movement of traffic from B.G. areas to North Bihar, North Bengal, Assam and other parts of U.P. by over two and a half times the previous capacity. Hardly was this completed when work was already started on the Rs. 10-crore bridge across the mighty Brahmaputra between Amingaon and Pandu. This will be the first bridge across the Brahmaputra and will consist of 10 spans of 403'-4½" with 2 approach spans of 108'-11". It will carry two M.G. railway tracks on the lower deck and 23 feet roadway and two 6 feet footpaths on either side on the upper deck.

Rolling-stock

An important problem that the Indian railways have had to face during the post-independence era was the matter of procurement of rolling-stock and other equipment. Until the first Five-year Plan, Indian railways were dependent on imports for almost all important items of equipment, including rolling-stock, rails, signalling and electrical material and other plant and machinery. This involved heavy expenditure of foreign exchange which it was difficult to obtain. The establishment of Chittaranjan Locomotive Works in the public sector was the first major step towards self-sufficiency in railway equipment. The present capacity of Chittaranjan is 14 B.G. locos per month. It is intended to stabilise production at this level and to meet the excess requirements by electric or diesel traction. The manufacture of M.G. steam locomotives is undertaken by Messrs. Telco in the private sector with a capacity of 100 M.G. steam locos per year. Indian railways are now completely self-sufficient in the production of steam locos. Manufacture of coaching stock is concentrated largely in the Integral Coach Factory at Perambur, near Madras. The present capacity is 350 coach shells per year, which is being doubled by the introduction of multiple-shift operation. Hindustan Aircraft Limited, Bangalore, also manufacture passenger coaches and some manufacture is also undertaken by the railway workshops. In regard to wagon manufacture, this is allotted entirely to the private sector. Against 3,707 wagons manufactured in 1951-52, the highest annual figure reached so far was 17,773 in 1957-58 in terms of four-wheelers. The present capacity is about 20,000 and it can be increased further at short notice. Capacity for the manufacture of diesel and electric locos is being established during the third Plan. In regard to electric locos, the electrical parts are to be manufactured in the public sector plant of Heavy Electricals Limited in Bhopal and the mechanical portion at Chittaranjan. The first of D.C. electric locomotive is expected to be delivered from the Chittaranjan Shops by the middle of next year and a capacity of 60 locos per year is expected to be built up by the end of the third Plan. Indian railways thus expect to be almost completely self-sufficient in regard to all types of rolling-stock by the end of the third Plan period.

Considerable progress has also been made in regard to the establishment of indigenous capacity in the manufacture of signalling and electrical material. In regard to rails, a limited supply has been forthcoming from the existing steel plants, but, with the commissioning of the new steel plants, self-sufficiency will be reached within the next two or three years. The progress achieved by the Indian railways in reaching self-sufficiency can be judged from the fact that the total requirements of foreign exchange for the third Plan will be of the order of Rs. 150 crores only, as against Rs. 380 crores in the second Plan.

Passenger Transport

On the passenger transport side, the problem of overcrowding in third class has persisted on the Indian Railways for some years. The increase in the passenger traffic in the post-war period has outstripped the resources of the railways in rolling-stock and line capacity for increasing the passenger transport so as to eliminate overcrowding. At the end of the first Five-year Plan, the extent of overcrowding was very much heavier on the metre-gauge than on the broad-gauge. The aim of the railways has, therefore, been to even out over-crowding between broad-gauge and metre-gauge and also between the different Zonal Railways.

The results achieved are seen from the following figures of percentage of overcrowding (occupation over 80 per cent. of the capacity) as observed in the periodical census of passengers, which is conducted towards the end of every year:

	1955	1956	1957	1958	1959
Broad-gauge ..	16	14	16	13	13
Metre-gauge ..	30	20	20	14	16

The Railway Administrations also try to reduce disparities in overcrowding between different sections of their systems subject to availability of rolling-stock and line capacity for running additional trains, room on existing trains for strengthening the rakes, etc.

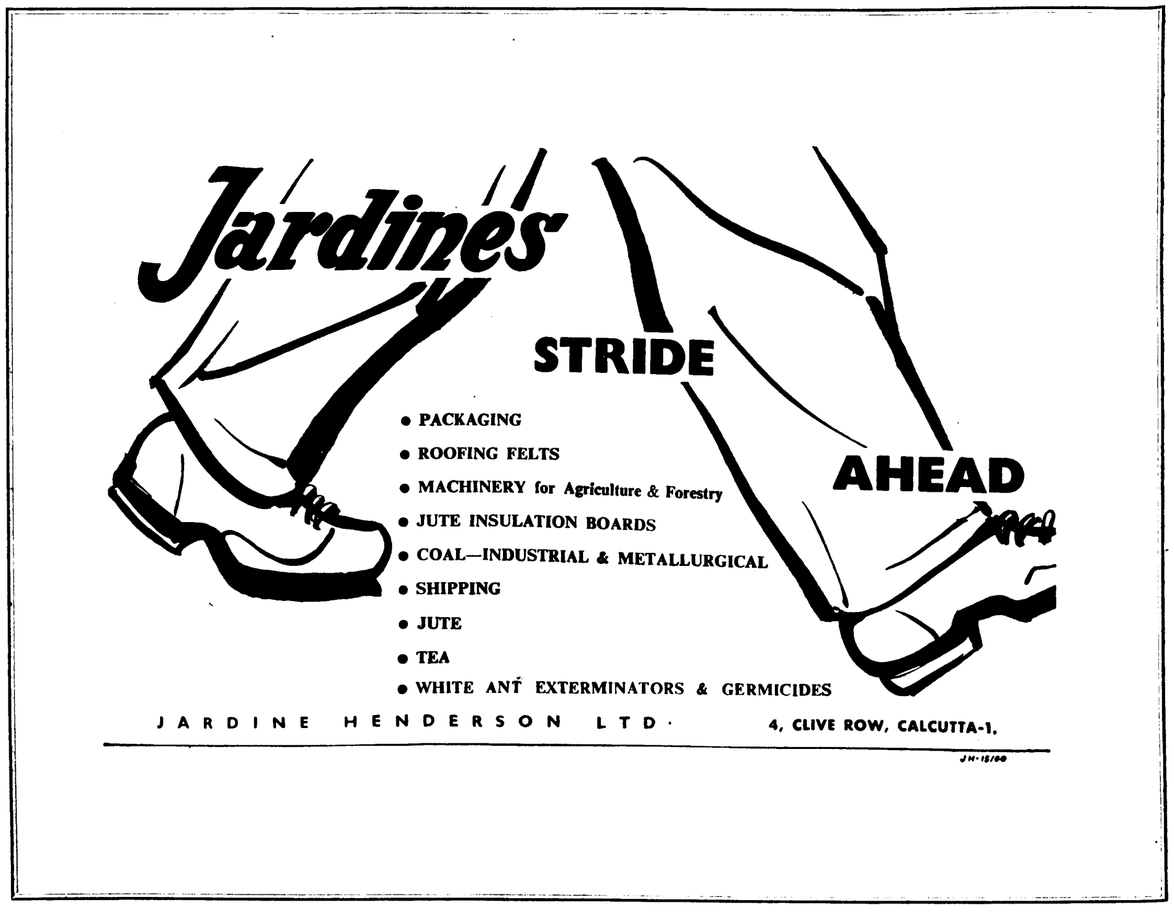
It is not possible to eliminate overcrowding altogether within the limited provision which can be allocated in the Five-year Plans after catering for the vital requirements of goods traffic for developmental purposes.

A drive has been launched for intensifying the usage of passenger coaches and retention of over-aged coaches in service by proper repairs, which is expected to increase the capacity on the broad-gauge sections to an appreciable extent. In addition to these measures, dining cars and air-conditioned coaches where not fully utilised, have been withdrawn and replaced by third class coaches. Loads of trains are being increased to the maximum extent possible. Diesel rail cars have been introduced, where line capacity is available, to cope with short-distance traffic.

The heavy arrears of track renewals which were the legacy of the depression years of the thirties and World War II, would be overtaken to the extent of about 8,000 miles during the second Five-year Plan and it has been planned that the pace of renewals would be stepped up during the third Plan to enable all arrears being overtaken by 1965-66.

Out of the total allotment of Rs. 1,121.5 crores for the Railways Second Plan, the railways have provided out of their own resources

(*Continued on page* 136)



ROAD TRANSPORT IN THIRD PLAN

Importance Given Is Inadequate

By C. S. NAIR
SECRETARY, I.R.T.D.A.

A PLEA to scrap the British railways and turn the tracts into a network of motorable roads was made by a group of English people at the end of October 1960 to the Stadford Committee, the Government-appointed body studying the future of British Railways. According to this group of people, the railways can never pay and are an inefficient, uneconomic method of using the permanent ways. Converted into a network of motorways, they argue, these tracks, because of their easy gradients and absence of sharp bends, would enable road vehicles to run as fast as any express train and as comfortably as aircraft.

There can be no better illustration of the ideological changes which have taken place in the transport field in Western countries. A few weeks earlier, the British Transport Minister, questioned whether he could not help the languishing railways by diverting traffic from the road to the rail, said that "if one started telling industry that it must use a mode of transport which is inconvenient and more expensive, the export trade would be handicapped." He added that the British Government had no intention of restricting the freedom of choice between the different means of transport.

No Vendetta Elsewhere

The ideological changes in the West are based on the proved superiority of the road over the rail for many kinds of traffic and the consequent preference of the public for road transport for all movements calling for flexibility and speed. While in India motor transport has never been provided with the prerequisites for efficient operation, such as good roads and unbiased regulatory measures, other nations have given motor transport the same freedom and facilities to expand as are given to other modes of transport, including railways. Other nations have evolved their transport policies not for the purpose of benefiting, or conferring a monopoly on, any particular mode of transport, but for enabling their peoples to make the best use of all forms of transport which they find suitable, whether old or new.

Consequently, today road transport is the predominant means of surface transport in many countries. It accounts for 52 per cent. of all "over-the-land" transport in Australia, 56 per cent. in the U.K. and 69 per cent. in Italy. "Whatever unit of measurement is used, road transport is now the major means of inland carriage of goods," states the British Ministry of Transport in a report on a sample survey carried out in 1958.

In comparison with these figures, motor transport accounts for merely 20 per cent. of overland transport in India and the great bulk of it is confined to urban and feeder traffic.

An Example

Should those in charge of Planning in India ignore the technological developments in transport the world over or should they welcome the opportunity of benefiting from the experience of more developed nations? This is a vital question, the answer to which will eventually influence the role which road transport will play in India's third Plan. As India's transport demands move upwards, the handicaps which the commercial and industrial community will be confronted with, if road transport does not expand in the same proportion, are becoming increasingly evident. This can be illustrated very vividly by examining the experience of one of our large industrial concerns—Hindustan Lever. Mr. Turner, Chairman of the Company, stated recently that, in 1950, when the Company's transport was chiefly by rail, goods spent an average of 21 days in railway wagons. In 1959, 50 per cent. of the despatches went by road and the transit time came down from 21 days to five days. This enabled the capital locked up in stocks to be reduced by about Rs. 1½ crores. The Company further saved Rs. 24 lakhs in packing costs, because cardboard containers could be used for door-to-door transport by road, instead of the wooden boxes necessary for transportation by rail.

Traffic Potential

In the light of what has been stated above, it follows that, if India wants its commerce and industry to have at its disposal the type of transport suited to its needs, the quantum of motor transport to be provided for in the third Plan should bear to the total volume of surface transport a much larger proportion than in the second Plan. Let us consider in some detail the position likely to develop in the third Plan period.

It is estimated that, under the third Plan, the production of commodities will total about 370 million tons, as against 245 million tons at the end of the second Plan, and 165 million tons at the end of the first Plan. Out of the total for the third Plan, 80 million tons of agricultural produce which may move over short distances between one village and another, will be, it is estimated, handled by bullock carts. On the other hand, imports will add 25 million tons to our transport requirements. Thus, the total tonnage to be handled by road, rail and water transport under the third Plan will amount to 315 million tons. Out of this, about 18 million tons may be carried by water transport, leaving about 297 or, roughly, 300 million tons to be transported by rail and road.

At the beginning of the first Plan, during 1950-51, the railways carried 92 million tons of originating traffic. In 1955-56, at the end of the first Plan, they carried 113 million tons. To handle this additional traffic, the railways had to undergo an expenditure of Rs. 140 crores of additional investment. In 1960-61, which will see the end of the second Plan, the railways are estimated to carry about 162 million tons. This additional responsibility has involved an investment of Rs. 840 crores. According to the third Plan, the increases in the targets of production of iron, steel, coal and cement would need an additional transport capacity of 50 million tons, in addition to the capacity needed on account of miscellaneous goods. From present trends, the writer feels that, at the end of the third Plan, the demand for railway transport may be no more than 220 million tons, i.e., an increase of 58 million tons over the second Plan. The remainder of the traffic amounting to 80 million tons can be served better by road transport and the interests of the country demand that it should go by road.

Road transport will further have to carry feeder traffic for railways and water transport, estimated at 220 million tons for railways and 18 million tons for water transport, making a total of 238 or 240 million tons. This is no easy task as can be seen from a few facts.

Vehicles Required

At the end of the first Plan, road transport carried about 120 million tons, of which as much as 113 million tons constituted feeder traffic for railways and seven million tons of feeder traffic for water transport. There was practically no long-distance road transport at the beginning of the first Plan. The responsibility under the third Plan is, therefore, going to be a heavy one. What is the number of vehicles that will be required to handle this traffic with some efficiency? At the end of the first Plan, we had about 119,000 goods vehicles. At the end of the second Plan, the number is not likely to exceed 160,000. To carry the traffic during the third Plan, the number will have to be about 325,000. This means that we shall require 165,000 more goods vehicles than at the end of the second Plan. During the third Plan period, according to normal calculations, about 65,000 goods and passenger vehicles will have to be replaced and at least 30,000 additional buses will have to be put in service. Thus, a total of roughly 2,60,000 commercial vehicles will have to be produced during the five years of the third Plan, making an average annual production of 52,000 commercial vehicles.

The Planning Commission had fixed a production target of 40,000 commercial vehicles for the year 1960-61, and has now tentatively suggested a target of 60,000 commercial vehicles for the last year of the third Plan. This may suggest that the production of 52,000 commercial vehicles annually on an average during the third Plan should not be difficult. However, only two-thirds of the second Plan target will be reached at the end of that Plan and, because of that, there is not much hope of the requisite number of vehicles becoming available, unless we increase the target for 1965-66 to something like 70,000 units.

During the second Plan, automobile production had to be slowed down and a considerable part of manufacturing capacity kept idle for shortage of foreign exchange. It is obvious that we cannot have adequate road transport without adequate number of vehicles and, therefore, under the third Plan, the Government will have to make provision for adequate foreign exchange to enable the manufacture of an average of 52,000 vehicles per year.

Production of Vehicles

The production of vehicles under the second Plan has for the reason mentioned above fallen seriously in arrears. The Planning Commission had fixed the target of production at 100,000 jeeps and cars, etc., and 140,000 commercial vehicles during the Plan period, but the production, during the Plan period, has consistently remained below the target, as will be seen from the following table:

Year	Cars, jeeps, etc	Commercial vehicles	Total
1956	17,805	14,333	32,138
1957	16,280	15,649	31,929
1958	11,663	15,125	26,788
1959	16,500	19,820	36,320
1960 (estimated)	25,500	28,000	53,500
Total ..	87,748	92,927	180,675

The following table gives the Planning Commission's target for the second Plan and actual estimated production. The table shows that, in the manufacture of cars, jeeps, etc., we are 12 per cent. below the target and as much as 34 per cent. below target in the production of commercial vehicles.

	Planning Commission's target	Estimated production	Percentage of target
Cars, jeeps, etc. ..	1,00,000	87,748	88
Commercial vehicles ..	1,40,000	92,927	66
Total ..	2,40,000	1,80,675	75

If these production shortages were in line with the production shortages in other fields, the matter would not have been, perhaps, so serious, because, if production in industry and agriculture is below the target to the same extent, no transport problem would be created. That, however, is not the case.

The size of the second Plan is expected to be about 94 per cent. of the original, while vehicle production is only 75 per cent. What is more significant is that, in the case of shipping and railways, the total target is expected to be reached 100 per cent. by the end of the second Plan. The plea that, owing to shortage of foreign exchange, the Government could not permit import of parts required for manufacture of automobiles is hardly convincing. Railways got the colossal amount of Rs. 377 crores of foreign exchange under the second Plan, while sanction for the comparatively small amount of Rs. 5 crores required for high tensile steel for constructing some bridges on national highways was withheld until towards the end of the Plan. Even the major portion of the foreign assistance under the T.C.M. scheme has gone to the railways. Thus, between 1952 and 1959, about Rs. 36 crores of this aid were sanctioned for the railways, while road transport received a mere Rs. 1.4 lakhs. What is necessary is that the Planning Commission should fix priorities for both road and railway transport on the basis of some fixed principles.

Why Road Transport?

One would not normally bother about the condition of road transport, if it were not for the fact, as already mentioned, that it has a number of advantages over railways—advantages which would make the difference between success and failure in any modern industry. A noteworthy transformation that has taken place in the transport system during the post-war period is that railway freight transport is now mainly confined to transport of raw materials, especially mineral ores, coal and, in a small measure, agricultural produce, while practicably all manufactured goods are transported by road. The reasons for this are readily understandable. The manufacturer who has invested his money in the production of goods wants them to reach the customer as fast as possible. It saves investment for the manufacturer, the wholesaler and the retailer who is assured of frequent supply of required quantity and does not have to stock goods for fear of not receiving them in time. Road transport also saves a vast amount to the manufacturer, because it requires little, if any, packing charges against the very considerable amount spent in packing goods for transport by railway, as already seen from the speech of Mr. Turner, Chairman of Hindustan Levers, quoted earlier. Then, there is the very heavy pilferage that takes place in railways which is practicably non-existent in the case of road transport. Lastly, there is the door-to-door road transport service which avoids triple handling and

triple cost of labour as is involved when goods have to be carried by road transport to rail-heads and from rail-heads again to destination. The Planning Commission does not seem to have appreciated the significance of this world-wide trend in transport. The very meagre allotment for road development under the third Five-year Plan is a proof of this, if any proof were needed.

Parsimonious Treatment

Under the second Plan, a sum of Rs. 250 crores was allotted for road construction. Only the same amount is allotted for roads in the third Plan too. Against this, the railways are given the lion's share in the third Plan, the total allotment being Rs. 890 crores in addition to Rs. 330 crores from their depreciation fund. Considering the fact that the size of the third Plan is 60 per cent. larger than that of the second Plan, road construction should have secured Rs. 400 crores. Actually, according to the 20-Year Road Plan framed by the Government engineers themselves, under the third Plan an allotment of Rs. 590 crores should have been made. It needs hardly to be stressed that the allotment for road construction requires to be drastically altered to meet the requirements of road transport under the third Plan. And there is hope for this. In the Draft Outline of the third Plan, the Commission admits the possibility of such a revision.

Nor need the Commission be worried overmuch regarding the economic consequences of investing money in road construction. Road construction pays heavier dividends than any other industry. Apart from the enhancement in land value and the development of territory that is brought about by road construction, the direct income to Government from road transport itself is more than any other industry pays in normal circumstances. It is much larger than the profits from the railways, as has now been proved by the researches conducted in 1960 by the National Council of Applied Economic Research. The report of the Council shows that taxes paid by motor transport in 1957-58 amounted to Rs. 126.17 crores and that the expenditure on road maintenance, establishment and administration was Rs. 36.46 crores, thus leaving a net contribution of Rs. 89.71 crores to the exchequer which represents a dividend of roughly 18 per cent. on the capital cost of the road system. Against this, the taxes and dividend paid by the railways, amounting to Rs. 54.68 crores, represents barely 5 per cent. of the capital invested by the Government in the railways.

Employment Angle

Road transport is also labour-intensive. It has been expertly calculated that, for handling the same amount of traffic per ton-mile, road transport employs seven times as many men as railways do.

An independent study conducted by the National Council of Applied Economic Research a few months ago shows that road transport provides employment for 2.4 million people, widely dispersed regionally and occupationally. This employment is far greater than that on Indian railways. The study also shows that employment direct and indirect represents more than 12½ persons per commercial vehicle. To a country which is suffering so seriously from unemployment and under-employment, this is an aspect of the industry that must receive the serious consideration of the Planning Commission.

Railways—The Favourite Wife

Even the meagre road mileage that we have is not put to the best use because of the dwarfed condition of our road transport. We need not go into the details of the reasons that have led to the dwarfing of road transport except to say that, for the last hundred years, the railways have been the Government monopoly and, therefore, have always received a "favourite-wife" treatment at the hands of the Government. The Motor Vehicles Act, passed in 1939, which was drastically revised only four years ago, imposed such severe restrictions on road transport that it could not possibly grow according to the needs of the community. It has been prevented from serving the community even when railways, already loaded with freight, could not handle the goods that were pouring into their yards. Nowhere in the world is road transport so heavily taxed as in India, and that is another reason for the under-use of our investment in roads. In 1956, there were about 28 motor cars and 9 commercial vehicles per mile of surfaced road in Great Britain, as against 1.67 cars and 1.36 commercial vehicles per mile in India. This colossal difference means that we are not making use of the money already invested in road construction. This is a serious economic loss to the nation.

While our road system remains heavily under-used in the major part of the country, it is amazing that the railways have framed a number of schemes for extension of their lines, for duplication of some and also for conversion of metre-gauge lines into broad-gauge. The country is entitled to know to what extent these projects are justified, when our roads are not put to the maximum use. A country that suffers so seriously from the shortage of funds cannot afford to allow its capital investment in roads to lie practically idle for want of use.

The problems of road transport have been under constant study by the Ministry of Transport and Communications and also by the Commerce and Industries Ministry during the past three years.

Roads

The appointment of the Inter-State Transport Commission, the Road and Inland Water Transport Committee and the Road Transport Reorganisation Committee, popularly known as the Masani Committee, in 1958, was followed, in 1959, by the Jha Committee to examine several questions concerning the manufacture of vehicles. The National Productivity Council, towards the end of 1959, sent out a Road Transport Team to study the methods of operation of road transport in West Germany, United Kingdom and the U.S.A. The Chief Engineers' Road Plan recommending a twenty-year plan of road development costing Rs. 5,200 crores was also released in 1959. The effectiveness of any proposals put up by these Ministries for the development of road transport is, however, generally nullified by other Ministries, the Railway and Finance and also by the Planning Commission. In an expanding economy, with traffic demands exceeding the capacity of the different modes of transport available, it is inconceivable that proposals for developing road transport should meet with opposition from any sources, but this is precisely what is happening in India.

Railways, which are owned by the Central Government, have made it their business to discourage other forms of transport and the powerful influence they wield can be seen from a few facts. The Inter-State Transport Commission whose function is to regulate and develop inter-State road transport has as one of its members a representative of the Railway Board. The Masani Committee recommended that public carrier permits should ordinarily be valid for the whole of a State, where the permit holder so desired. It also recommended that no curbs should be placed on long-distance road services. These recommendations, which were strongly opposed by railways, have been shelved for the present and a committee under the chairmanship of Mr. Neogy has been formed to recommend an inland transport policy for India. This Committee, which is proceeding with the task entrusted to it, has a railway representative on it but no representative of road transport operators or of the business community. The Masani Committee pointed out how road transport is more valuable than railways from the employment point of view, and also from that of contributions to the Exchequer. But, here, again, because railways would not accept such statements, the Transport Ministry had to ask the National Council of Applied Economic Research in 1959 to examine the matter independently. The railways have apparently found a powerful ally in the Finance Ministry. The average motor vehicle in India pays in taxes or duties on the vehicle and its fuel an amount of roughly Rs. 2,600 per annum. It is over four times the rate in America and more than twice the rate in European countries. The Masani Committee referred to the urgent need for reducing this discriminatory taxation and pointed out that a medium petrol-driven vehicle, in terms of its payload, pays more than 7.25 nP per ton-mile in taxation which is more than the average freight charged for transporting goods on the railways. Instead of reducing taxes and looking for additional revenue from the expansion of road transport, the Finance Ministry levied, in the last budget, a fresh excise duty of 12½ per cent. *ad valorem* on transport vehicles. While the revenue collected from road transport is increasing year by year, roads are starved of the expenditure required for their modernisation, with the result that heavy vehicles and truck-trailer combinations, which, in many cases, can carry goods at half of the costs now incurred, cannot ply on our roads.

Silver Lining

There is, however, a silver lining in the present cloudy sky. The Committee formulating India's transport policy has as its Chairman a person of the eminence and experience of Mr. K. C. Neogy. As an impartial examination of the merits of road and rail cannot fail to underline the importance of developing roads and road transport in India, it can be hoped that the recommendations of the Neogy Committee will give India the correct lead. Let us hope that one of the recommendations of this Committee will be the separation of the road transport budget from general revenues, just as the railway budget was separated on the recommendation of the Acworth Committee forty years ago. If the railways, which yield to Government a revenue of less than Rs. 60 crores annually, can have an annual capital budget of three times that amount, road transport which contributes Rs. 145 crores can certainly expect adequate capital expenditure to modernise the roads and bring them to a standard comparable with roads in Western countries, in the same way as India's rail tracks and railway rolling stock compare favourably with similar equipments in advanced countries.

Our existing poor roads affect not goods transport only, but, to a much greater extent, our passenger bus services also. The passenger trains on Indian railways are terribly overcrowded and still nothing substantial has been done to relieve the congestion by running parallel services by road. The total bus traffic on roads today is about 20 per cent. less than the railway passenger traffic and consists predominantly of feeder traffic, serving routes not connected by rail. In refreshing contrast is the U.S.A., where the volume of long-distance inter-city bus traffic alone is 92 per cent. of the railways' passenger traffic. In the U.S.A., one can purchase a through ticket for a road journey of 3,200 miles from San Francisco to New York and cover the journey in 74 hours, the average speed being 44 miles per hour, after allowing for halts *en route*. Against this, in India the bus service introduced in October 1960 from Coimbatore to Nagercoil, a distance of 288 miles, covered at an average speed of 24 miles per hour, is considered an achievement!

Restrictive Policies

The condition of roads is only one of the handicaps discouraging expansion of bus services. Another equally important handicap is the licensing policy followed in the issue of permits. Not only are State boundaries often allowed to operate as effective barriers to the operation of inter-State bus services, but, under the present procedure, it is difficult for operators to put an additional bus into service on a route when the growth of traffic demands it. The result is that not only our bus services in most parts of the country are as overcrowded as railway trains but, very often, intending passengers are unable to undertake their journeys for want of accommodation in buses. Here, again, the conditions in America provide a refreshing contrast. In that country, an operator has freedom to put as many buses on his route as he wants, the permit being for the service and not for a particular vehicle. In America, road and railway services are on an equal footing. Both have permits valid in perpetuity and there is no restriction on the number of vehicles which either of them can put into service. In India, railways have all this freedom, but the road operator is regarded as an interloper, whose permits have to lapse, if not renewed periodically, and who is to be restricted from putting additional vehicles into service at his discretion to meet the growing traffic needs.

Given better roads, liberal long-distance permits and freedom for the operators to carry all the traffic offering, India will need to increase its present fleet of roughly 46,000 buses, by at least 100 per cent. During the second Plan period, there has been practically no increase in the number of buses, even though goods vehicles are expected to show an increase of 33 per cent. from nearly 120,000 in 1956 to 160,000 in 1961.

To sum up, development of roads and road transport to a far greater extent than is contemplated in the third Plan is essential from the point of view of:

1. Our growing industrial and agricultural output in the third Plan;

2. Utilising our national investment in roads, and providing employment at a much larger rate than the railways do;

3. Yielding returns to the exchequer at a higher rate than in other industries, including railways; and

4. The fact that road transport as a rapid means of transport, is preferred for the transport of finished goods, which therefore gives a quicker return on the investment of the manufacturer.

Road transport is occupying an increasingly dominating position in transport systems throughout the world and the sooner we realise this fact in shaping our transport policies, the better it will be for our country.

AIRCRAFT INDUSTRY FOR INDIA

Need for a Separate Ministry for Aviation

By WING COMMANDER R. VAUGHAN-FOWLER, R.A.F. (RETD.)

BEFORE discussing an aircraft industry for India, it will help to clarify the position if two major questions are answered:

(*a*) Does India require an aircraft industry? If the answer is yes,

(*b*) What would such an industry consist of?

The reason why India not only requires an aircraft industry but must develop one is that to depend on other nations for the supply of equipment on which the country's defence system has to rely would be suicidal sooner or later. Secondly, it is economically wrong to purchase a mass of equipment abroad if it can be manufactured in the country. So the answer to the first question is obviously—Yes!

To lay down in a paragraph the combined manufacturing potential that constitutes an aircraft industry is like trying to house an elephant in a match box. An aircraft industry today embraces an extremely wide range of products, many of which require a colossal and costly research organisation behind them for development and testing, both of which are never-ending in aviation as refinement to procure better performance or reliability is constantly going on even in respect of aircraft that have been in service several years.

Main Items

The following is a simple breakdown under main head groups:

(i) Airframe, main structure, furnishing including electric kitchens and lavatory systems.

(ii) Power-plants complete with accessories, frequently supplied as a complete unit by specialist sub-contractors who work in conjunction with the power-plant manufacturer. This is known as the power plant package.

(iii) Electric equipment, including radar, communication systems and electric powered equipment. Air conditioning and pressurisation systems. Hydraulic systems, power controls.

(iv) Armament systems of all kinds for military aircraft.

(v) Miscellaneous equipment such as parachutes, air-sea-rescue outfits, passenger service equipment not part of the airframe such as built in kitchens which are included in (i).

(vi) Ground service equipment, including all services for both aircraft and passengers or cargo. Overhaul and workshop equipment, fire fighting and communications.

It may be said that, in each of the above groups, which individually are far from complete, a whole range of specialist manufacturers are required. For example, let us take a simple requirement, cabin carpets; these come under group (v).

Several years ago, an operator decided to use Indian manufactured carpets in the company's aircraft cabins. The cost per sq. ft. was no less than the price of imported aircraft cabin carpets. The weight per sq. ft. was considerably more. This immediately imposed a penalty on the operator, the extra weight had to be deducted from the aircraft's payload. It was found that the carpets did not stand up to the wear and tear in the cabin gangway or under the feet of seated passengers, thus replacements were more frequent than in the case of the foreign product. The whole experiment decided the operator against the use of Indian manufactured carpets, *mainly* because it was more economical to use the imported article. The only solution is for Indian carpet manufacturers to study the structure of the imported product and endeavour to copy it, using equally tough materials. At the same time, every effort must be made to keep down the cost of manufacture so as to be competitive.

It may not be apparent to those not associated with air transport how important it is to save weight in articles used in aircraft. A saving of even 10 lbs. is well worthwhile. This small saving means that, on every flight, the aircraft can carry 10 lbs. more payload. Assuming that this saving enables the aircraft to earn an extra Rs. 20 per day, and allowing for overhaul, the aircraft is serviceable 330 days per annum, the additional yearly potential income is no less than Rs. 6,600.

An Obstacle

At the present time, aviation in this country suffers from being under the jurisdiction of too many authorities. A large part of the country's aviation is directly concerned with Defence, this includes manufacture which immediately makes the problem a matter of concern and interest to other Ministries such as the Ministry of Commerce and Industry, also both Central and State Ministries dealing with labour. If we include military airlift, the Ministry of Transport and Communications has a finger in the pie through its Civil Aviation administration, which includes the Directorate General of Civil Aviation.

In the background, but playing an important part, is the Ministry of Finance, and, of course, all the official machinery concerned with foreign exchange and import licences. The complications are far too many and too confused to attempt any clarification in a brief review of this nature, so I must request you to accept my assurance that the path of aviation is very far from smooth. This causes many prolonged delays in development plans.

When the last war ended and shortly afterwards India obtained independence, aviation was not by any means a matter of national importance, certainly not in the sense it is today. The vast strides that have been made in international and short haul air transport have changed the whole concept from a minor affair to a matter of major importance and for India, I would say, urgency. There are adequate indications that conflicts of opinion exist between military and civil aviation, but this is not unknown in other countries. It is not really practical to separate the two sides of Air Power as they are so closely related and interconnected. An important change in one sphere is bound to react on the other.

Separate Minister Needed

This fact is, of course, far more apparent in countries where aviation is on a much larger scale, such as the U.S.A. or the U.K. It is significant that, in the U.S.A., the Government has united aviation under the Federal Aviation Agency, which at the time of its inception introduced united air navigation control over the United States. Shortly after America revised her policy for the control of aviation, the British changed their system of handling aviation through a number of Ministries by appointing a Minister of Aviation to co-ordinate everything to do with aviation. Logically, India should follow these examples. The earlier we modernise our control of aviation the better, because, whilst there is comparatively little aviation in India, it is not too difficult to reorganise things. The longer confusion and complication is permitted to continue, the more difficult it will be to unravel the whole thing. One day, the Government, in exasperation over the muddle that exists, will appoint a Minister of Aviation, with Cabinet rank.

My own personal feeling is that, with aviation expanding in this country, not a moment should be lost in making this appointment, so as to bring under the Minister all the odd pieces of administration which are at present vested in a variety of Ministries. I have heard it argued in Government circles that it would be too costly to have a special Ministry of Aviation with its own Minister. This is false reasoning, as, under the present diversity of administration, large expenditure occurs hidden in the accounts of several Ministries. By bringing all under one control, it is probable there would be an actual saving. At least, it would eliminate duplication, as well as make standardisation possible, in many things common to both civil and military aviation.

Planning

We all think of aviation as a means of doing something quickly. The finished product undoubtedly achieves fantastic speeds such as airliners cruising at between five and six hundred miles per hour, whilst military aircraft hasten on their duty at speeds up to 1,200 miles per hour. These achievements are the result of years and years of careful planning, mingled with research and endless trial and error. Curiously enough, every function in aviation requires long-term planning.

Anybody who imagines he can start a small factory to build some particular accessory for use in aircraft will soon discover that, before he can begin, he has to learn the rules and regulations from the ground up. On top of that, he has to procure and assemble the right equipment together with a fully trained and licensed staff to handle the work of the project. In this respect, competent staff can only be procured through years of experiencing. It takes at least three years to train a technician to handle a simple job with perfection and precision. After another five years of practical work, he will become a really competent workman, capable of handling the production of equipment for use in aviation. That means the technicians required are men with eight to ten years' experience in properly established aviation schools and workshops.

Scientific achievement constantly spurs aviation projects ahead at a fantastic speed. There is a saying in the industry that a modern aircraft is obsolete by the time it makes its first flight. There is always another aircraft a little better coming up close behind. The design team is, therefore, perpetually working on what are called refinements. In some cases, these virtually change the aircraft completely. The famous 'Spitfire' fighters are an excellent example, the original Spitfire, if put alongside one of the latest models still in service, would appear to be an entirely different aircraft. In actual fact, this is true. The only thing that remains the same is the name.

The point of relating these facts is to indicate the magnitude of the problem facing this country in respect of establishing a full-scale aircraft industry.

It is not unnatural that, when an industrially undeveloped country launches into a vast industrial development programme, particularly if independence has recently been achieved, there are demands on all sides for the manufacture of all kinds of things which previously had been imported. This national anxiety to achieve manufacturing independence has been applied very extensively in respect of aircraft manufacture. In spite of handicaps, remarkable progress has been made in the production of aeronautical equipment in this country.

In the foregoing outline, an endeavour has been made to show that an aircraft industry is, in fact, a whole number of industries working in close co-operation. It may surprise many to know that, in the United States, the aircraft industry is the largest employer of labour in the whole country, including the vast automobile manufacturing concerns. There are literally hundreds of individual manufacturers indirectly concerned with the manufacture of every aircraft of major importance.

Many people imagine that, provided there is sufficient money and a large enough factory is built, aircraft or aero-engine manufacture can be started overnight. This is very far removed from the truth. In the first place, it is by no means easy to procure and assemble the large number of machine tools which are required to manufacture a single type of aircraft. In actual fact, many of the large aircraft manufacturers make no attempt to produce in their own works certain parts of aeroplanes, leaving these to others who undertake this particular class of work as their own speciality. For example, undercarriage systems are usually manufactured by a specialist manufacturer and supplied to the aircraft manufacturer ready to fit on.

Although the jet engines are far more simple than the old piston type power plants, they have many highly technical specialities as accessories. It is, therefore, more convenient for the airframe manufacturer to arrange with the aero-engine supplier, to have the engine assemblies in their nacelles supplied in the form of a complete power pack. A specialist manufacturer does this work for the airframe and engine makers, dealing with perhaps *twenty accessory manufacturers* who each supply some vital part. This happens in the case of the Boeing 707 and it is a most satisfactory arrangement.

Logical Way

Any attempt to centralise all this manufacture and thus do away with sub-contractors would reduce the strength of the aircraft manufacturing industry. Also, output would be restricted. Therefore, the logical way to develop the aircraft industry in this country is to search out existing manufacturers whose experience fits them to undertake the production of some part of the aircraft project. If this can be done, then the centralised manufacture of the main structures will be simplified; at the same time, production speed will increase far beyond anything at present attainable.

Unfortunately, no single type of aircraft can perform all the aviation work required. At least, four or five different types are required for a modest development of civil aviation, and the Air Force probably requires about ten fixed wing types plus two or three types of helicopter. There are also Naval aircraft to be

(*Continued on page 132*)

SHIPPING POLICY—ITS EVOLUTION AND PROGRESS

By M. A. MASTER

IT was the supreme concern of the Britishers during their rule in India that they should take every possible step and utilise every possible opportunity for ensuring the most dominant and the most powerful position for British shipping in the carriage of the coastal and the overseas trades of India. Indians were, however, not lacking in the spirit of enterprise. As remarked by Babu Rajendra Prasad in 1941:

"Between 1860 and 1925 no less than, 102 navigation companies with a total nominal capital of about 46 crores of rupees were registered in India. Many of them were driven out as a result of hostility of British shipping interests with a loss of actual capital amounting to about 8 crores of rupees."

Strangulating freight wars carried on by the British shipping interests were the order of the day. As observed by Sir Alfred Watson in his evidence before the Joint Select Committee of the British Parliament:

"Indian company after Indian company which endeavoured to develop a coastal service have been financially shattered by the heavy competition of the British shipping interests."

Indian shipping was denied even the right to quote for the carriage of coal from one part of India to another. Britishers pressed the then Government of India to utilise the trade agreements made by India for furthering only the position and power of the British shipping interests. Under the cloak of promoting the interests of Empire shipping, Indian officials and Indian representatives to International Conferences were compelled to travel by British ships only. The so-called Lee loot only filled the coffers of the British passenger lines. Political pressure and political persecution at the instance of the British shipping magnates were repeatedly used for sending the struggling Indian shipping industry to the wall. As remarked by Rajaji in 1949, the only offence of Chidambaram, the shipping pioneer in the South, was "that he made the people of Tuticorin say *Vande mataram*." He was sentenced for this offence to two terms of transportation for life.

When the principle for the reservation of the coastal trade of India for Indian ships was accepted by the then Legislature in 1928 by an unusual majority of 25, Lord Irwin, the then Viceroy, made an appeal for settling the Indian shipping questions by friendly negotiations between the British and the Indian shipowners. A conference was called for that purpose in 1930. It miserably failed, as there was no response whatever from the British interests. Promises and assurances were given by the then British Government of India that they would provide all help for and give all encouragement to Indian shipping to develop. These promises and assurances were more honoured in the breach than in observance. Although the Imperial Shipping Committee in its report on British shipping in the Orient published in 1939 paid its tribute to the "vigorous management" of the Scindia Company, "owned and controlled by British Indians," and urged that "the aspirations of India to enter into the field of shipping operations are natural and should be fairly met in a co-operative spirit by the United Kingdom lines," it made no impression either on the British shipowners or on the British Government in India. As remarked by the Shipping Policy Committee, the history of Indian shipping under the British rule in India has been for the Indian shipping companies "a sad story of ceaseless struggle and sacrifice, for the people of the land, it is a painful chapter of bitter disappointment at the lack of response from the Government of India to their demand for stability and expansion, and for the Government of India, it is a tragic tale of broken promises, unredeemed assurances and neglected opportunities." Verily, therefore, Mahatma Gandhi, the father of the nation, summed up this history in his inimitable way, when he said "Indian shipping had to perish so that British shipping might flourish."

The Dawn of Wisdom

Although the British Government in India did everything possible to cripple and to crush Indian shipping endeavours, it took the first opportunity during the Second World War to utilise the tiny little Indian fleet for assisting the cause of the Allies. In doing so, 14 Indian steamers, both cargo and passenger, were lost. The "Quit India" resolution of 1942 made the British realise the coming Independence for India. Both the need of the Allies and the vision of the coming Independence led the British Government in India to admit, for the first time in 1944, that "for a country of its size, the length of its coastline and its strategic position athwart one of the world's main sea routes, India possesses a distressingly small number of deep-sea ships, which at the outbreak of war stood at no more than 30 with a total of less than 150,000 tons gross." It made them also confess for the first time that "the vulnerability of India's position has been revealed by the stress of war-time conditions, but by no circumstance more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of food supplies required by us." The absence of Indian ships for bringing foodgrains led to the tragedy of thousands of people dying in Bengal from starvation. It was under such conditions that a Shipping Policy Committee was appointed in October 1945 for making recommendations as to how Indian shipping should be promoted and particularly to determine what should be a suitable tonnage target for Indian shipping to be attained within a period of five to ten years.

National Shipping Policy

The Shipping Policy Committee submitted its report on the 30th January 1947. India had practically become independent by the middle of that year. In endorsing the recommendations of the Shipping Policy Committee, the Government of India agreed that the definition of Indian shipping should be "shipping owned, controlled and managed by Indian nationals." They further stated that they "fully endorse the view of the Committee that India, like other important maritime countries, must adopt a dynamic policy with regard to her shipping." This postulated that the Government of India would be prepared to grant such financial help, assistance and encouragement for the development of Indian shipping as was given by countries like the U.S.A. and the U.K. to their national ships. The resolution of the Government dated 12th July 1947, further made it clear that, "with regard to the shares to be secured for Indian shipping in the various trades, the Committee have recommended that the targets to be reached during the next five to seven years should be 100 per cent. of the purely coastal trade of India, 75 per cent. of India's trades with Burma and Ceylon and with the geographically adjacent countries, 50 per cent. of India's distant trades and 30 per cent. of trades formerly carried in axis vessels in the Orient and it is the intention of the Government of India to assist Indian shipping as far as possible in this direction." The Government also approved of the recommendation of the Shipping Policy Committee that India would need at least 2 million tons g.r.t. of shipping for securing the shares of the various trades mentioned above.

A Red-letter Day for Shipping

The publication of the resolution ushered in a red-letter day for Indian shipping. For the first time, a National Shipping Policy for India was laid down by her own Government. For the first time, the Government laid down the target of the tonnage to be attained and the shares of the trades to be secured by Indian bottoms. For the first time, the Government of independent India promised that they would adopt a dynamic policy of shipping just as other foreign maritime countries had done and would give financial assistance to its own ships, when necessary, in the same way as the Government of the U.S.A. and the U.K. had done and were doing. It was certainly an important milestone in the history of national shipping in this country.

The Government of India also accepted the Committee's views that "the development of Indian mercantile marine would be facilitated if an understanding on the subject could be reached with his Majesty's Government and British shipping interests." As a consequence thereof, the Government of India sent a delegation of Indian shipowners under the leadership of the late Mr. Walchand Hirachand to Great Britain. These negotiations ended in failure. With a view that no one should unnecessarily blame the attitude which the Government-sponsored Indian delegation took on that occasion, the Government of India in a Press note issued on 27th July 1947, offered the following observations which fully vindicated the stand which the Indian shipping delegation had taken at London. The Press note stated—

"There never has been any difference of opinion between the Indian Government and the shipping delegation as regards the scope and purpose of the negotiations. The desire of the Indian Delegation and the Indian Government that negotiations should be on an overall basis for the allocation of increased shares, both in coastal as well as overseas trade, to Indian shipping was made abundantly clear to H.M.G. and must, therefore, presumably be known to the British shipping interests also. It had also been explained that the recommendations made by the Shipping Policy Committee would form the background of negotiations from the Indian side."

Further, in their cable dated the 23rd July 1947 to the Secretary of State for India, the Government of India added that they had accepted these recommendations and that they

"are pledged to give fullest possible assistance to Indian shipping companies in their endeavour to obtain within the next few years the legitimate share in the coastal and other trades. We cannot, therefore, afford to lose time and must start considering necessary steps in this direction."

The words "fullest possible assistance to Indian shipping" deserve to be carefully noted. This provides a cheerful contrast between the "hostility" of the alien rule and the "determination" of an Independent Government to build up "a new India."

New Tonnage Acquired

Till the beginning of the Second World War, Indian shipping was not allowed to run its steamers into the overseas trades of India. The only exception to this rule was the entry of the Scindia Company into the Haj Line. In view of the outbreak of the war and the hostile attitude of the then British Government of India the Haj service had to be closed. With the echos of coming independence and the enunciation of the National Shipping Policy, 49 ships were acquired, almost all second-hand, during the years 1946, 1947 and 1948. Seven ships were lost, sold or scrapped. Indian shipping was doing its best to build up an Indian Merchant Navy. The first overseas service, between India and America, was inaugurated by the Scindia Company from the American side, with the sailing of the s.s. *Jalakanta* on the 17th March 1947 and from the Indian side the India Steamship and the Scindia started also a regular liner service between India and the U.K. Continental ports in 1947-48. It was on 22nd December 1947 that the then Commerce Member, Mr. C. H. Bhabha, urged Mr. Walchand Hirachand, Chairman of Scindias, to start an overseas passenger service between India and England. The Commerce Minister gave the assurance that all necessary assistance, financial and otherwise, would be given to the Scindia Company to run the passenger line. Within two months of this meeting, the overseas passenger service was started by the Scindia Company. It enhanced the prestige both of India and Indian shipping. The Indian flag thus began to show itself regularly, just after independence, both between India and the U.K. Continent and India and America.

The First Vital Change

There were a number of other important overseas services where Indian ships had yet to enter. With the introduction of "soak-the-rich" budget of Mr. Liaquat Ali Khan for 1947-48 with its high rate of taxation, capital formation in India began to experience special and increasing difficulties. Mr. Bhabha as the Commerce Minister, in charge of shipping, was anxious to see Indian ships flying their flag on almost all the seas where India's overseas trades were carried. He, therefore, called a conference of the representatives of Indian shipowners in Bombay on 3rd November, 1947. Giving expression to the views and policy of the Indian Government, Mr. Bhabha remarked:

"Besides, very few of the shipping companies in this country have the resources to buy a sufficiently large number of these ships and it has been increasingly borne in upon Government that, if, at the present stage of development of the shipping companies in this country, Government have to rely on private enterprise, the growth and development of our mercantile marine will be disappointingly slow. The Government of India, have, therefore, come to the conclusion that their new shipping policy must be broadbased on the active co-operation of the State with enlightened private enterprise, in an endeavour to secure for India her rightful place among the maritime nations of the world."

In enunciating this policy of mixed economy, Mr. Bhabha further made it clear that

"as the resources of the State were very great, it would considerably help the cause of Indian shipping, if corporations were started when the State and the enlightened private enterprise would work together for running shipping services."

This new policy did not evoke any active response from the Indian shipowners. It was only the Scindia Company that agreed to form a Shipping Corporation on the basis of the policy of mixed economy. Even then, the first Shipping Corporation was established only in 1950, nearly three years after the announcement of the policy of mixed economy. Despite the huge resources of the State, the Corporation was started only with two ships of 14,433 g.r.t. and on 31st March 1953, it had only three vessels of 19,942 g.r.t. We are constrained to say that the Government failed to fulfil the expectations that they had raised by the announcement of this vital change in the National Shipping Policy of the country laid down by them in 1947.

Reservation of Coastal Trade

The reservation of the coastal trade of India to Indian-owned ships was announced by the Government in August 1950. It is well known that all important maritime countries, including Great Britain, did reserve their coastal trade to their national ships at one time or other in their maritime history. Indians urged from 1921 onwards that India's coastal trade should be reserved for ships owned, controlled and managed by Indians. There was, however, no response from the alien Government of India to this just and vital right of a nation. We are, therefore, grateful to the Government of independent India for vindicating our national right by reserving our coastal trade. It is true that the volume of cargo moving on the coast has witnessed a serious fall. It cannot, however, be denied that the policy of reservation constituted another important milestone in the history of Indian shipping and gave a great stimulus to Indian shipowners for the acquisition of fresh ships to meet the requirements of the trade.

The First Breach

Little did the country realise at the time this new policy was announced that there would soon be a breach, and that too a serious one, in the citadel of reservation. When the Government concluded their agreements with the two refineries at Bombay and the third one to be put up at Visakhapatnam, they gave the right to the refineries to carry their refined products on the coast of India in any tankers they liked. The volume of refined products of these refineries to be carried on the coast exceeded a million and a half tons, involving a freight of nearly Rs. 3 crores. More than 37½ per cent. of the coastal trade, out of a total trade of 4 million tons, was thus kept out of the field of reservation. Neither was it planning nor was it the policy of reservation. It was pure and simple politics and a complete denial to Indian shipowners for building up the nucleus of a national tanker fleet for which they had expressed a strong desire long before the Government thought of making agreements with the refineries for the carriage of those refined products round the coast of India.

Efforts to Bridge the Gap

In 1956, i.e., five years after this unhappy breach in the citadel of reservation was made, arrangements were made for beginning to bridge the gap by allowing the tanker of an Indian shipping company to carry the refined products of the refineries from one port on the coast to the other. Two more tankers of the Western Shipping Corporation, owned completely by the Government, are now running on the coast—one carrying the refined products of Burmah-Shell from 29th May 1958 and the other carrying the refined products of Caltex from 24th November 1959. The broad fact, however, remains that the carriage of refined products on the coast has not yet come within the policy of reservation, even ten years after that policy was announced. It is sad to reflect that there should be an inexplicably wide gap between the enunciation of a policy and its implementation even on the part of the Government of free and independent India.

Dutch Freight War

Soon after the Indian shipping companies started their overseas service in the India-U.K./continental trade, a freight-war, known as the Dutch freight-war, broke out in 1949. The war was so severe that the freight-rates were reduced from 90 shillings to 1 shilling 6 pence per ton. Without agreeing to mortgage the overseas trades of their own country, the Indian representatives played a prominent part in settling the Dutch freight-war. While Indian shipowners were grateful to their Government for giving them their moral support at every stage of the negotiations for settling the Dutch freight-war, the plain fact must be stated that, despite the heavy losses which the Indian shipping companies incurred as a result of the war, the Government did not give them any financial assistance to wipe out the heavy losses in accordance with their announcement of the dynamic shipping policy in 1947.

Efforts to Reverse Policy

With the dominant and the effective voice of the representative of the Government of India in the working of the premier Indian shipping company, the approach of the Government towards the building up of Indian shipping in the overseas trades of India underwent a radical change. Although in reply to the letter from the Federation of Indian Chambers of Commerce and Industry dated 11th September 1950, the Government confirmed that it was their policy to ultimately build up Indian shipping "with hundred per cent. capital, control and management of the nationals of the country," it was revealed by Sir William Currie, the Chairman of the P. & O. Group, in his speech at the annual meeting of that Company dated 31st May 1950, that they were approached by the Government of India, that they (British interests) should help them in enabling Indian ships to participate in international waters. Sir William added:

"We felt we should in these circumstances put forward a concrete proposal which would take account of the desire of the Indians to expand the fleet of ships under their flag, and would associate us with this development. Briefly, our plan was to create two joint Indo-British companies, in which we were prepared to accept a minority shareholding and for which we would provide experienced management. These companies would operate ships under the Indian flag, both of them engaging in the coastal trade and each engaging, in addition, in one overseas trade in collaboration with our existing lines."

Thus, with one stroke, not only could the policy of reservation be negatived, but the ownership, control and management of Indian shipping by the nationals of the country could be defeated. The Federation made a strong protest against such a move. They made it clear, in response to a poser from the Government, whether they

"would want a postponement of the development of Indian shipping until we are in a position to build up the industry ourselves without external aid,"

that in their opinion,

"even a stop-gap arrangement for the expansion of Indian shipping, till this ideal is reached, with the help of foreign shipping interests, will be detrimental to the growth of national Indian shipping."

Despite the protest against the proposed fundamental change in the Shipping Policy of the country, it was understood that papers for the change of that policy were prepared for the final decision of the Cabinet. The country would, however, remain eternally grateful to the late Sardar Vallabhbhai Patel, who, with his great patriotism and deep foresight, took effective steps for preventing the country from being subjected to this new humiliation of learning at the feet of the Britishers how to run, manage and control Indian shipping in the overseas trades of India. Negotiations with the British shipping interests for that purpose had, therefore, ultimately to be dropped.

All-round Control

With the introduction of planned economy for India, the activities of the shipowners for acquiring or constructing additional tonnage and the trades in which they should run, the manner in which the finance for the tonnage should be raised and all similar matters came under the vigorous and strict control of the Government of India. The first Five-year Plan laid down that the target for Indian shipping should be 600,000 g.r.t. by March 1956. Such a target was inadequate for achieving the percentage of trades laid down for her by the Shipping Policy Committee, endorsed by the Government of India, when they announced their Shipping Policy in 1947. With 109,383 g.r.t. of 17 ships under construction on 31st March 1956, the target of 600,000 tons was considered to have been achieved at the end of the first Plan. Indian shipping consolidated its position on the India-U.K./Continental line. It began to participate in the passenger trade between India and Malaya and India and East Africa. It also established a service between India and Australia and India and Japan. There was, however, not sufficient tonnage on these new services to give regular and adequate sailings required for the carriage both of cargo and passengers. Indian shipowners were, however, fortunate that their work was appreciated by the Government and Mr. Lal Bahadur Shastri, Minister of Transport and Communications, remarked in Bombay, in December 1957, that:

"The success of the first plan is to a large extent due to the initiative and enterprise shown by the Indian shipping companies and I take this opportunity to congratulate them on that account."

Private enterprise rose equal to the occasion and showed that it was capable of discharging its responsibilities and fulfilling its obligations. From, however, the broad national angle, we should not forget that, according to Lloyd's Register of Shipping, Indian tonnage of 100 gross tons and onwards on 1st July 1956 was only 0.55 per cent. of the tonnage in the world of over 105 millions g.r.t. Indian ships carried only 5 per cent. of India's overseas trades. There was thus a very long leeway to make up before Indian shipping could reach the target laid down by the Government in their Shipping Policy of 1947.

Loans From Government

It is a satisfactory feature and expression of our National Shipping Policy that, with the advent of planned economy, the Government of India decided to give loans to Indian shipowners for the acquisition and/or construction of ships for the coastal and the overseas trades of the country. Giving financial help in the shape of loans to shipowners for the purchase and/or construction of ships is not a new policy in the maritime world. Both Japan and Germany gave crores of rupees to their shipowners for the reconstruction of their mercantile marine, which had almost disappeared at the end of the Second World War. Even Great Britain, which possesses the most powerful shipping in the world, gave loans exceeding Rs. 30 crores under the Trade Facilities Act, 1921-22. The United Kingdom also advanced to the Cunard Line in 1938-39, under the North Atlantic Shipping Act (1934), the sum of over Rs. 4 crores for building ships at 1½ per cent. interest repayable in 40 years. Only very recently, the British Government announced that not only will it finance the cost of the new steamer to replace the present *Queen Mary*, on the Atlantic, to the extent of £18 million (Rs. 24 crores) out of the estimated cost of £30 million (Rs. 40 crores), but it would also make a free grant of £3¾ million to the Cunard Line, towards the cost of constructing this new vessel, which means a free gift of nearly Rs. 4.33 crores to a powerful British shipping company, with great resources, for building a single passenger liner vessel. We may add, in passing, that even the powerful British shipping received a subsidy of over Rs. 5.53 crores from its Government in 1935-36 to enable its tramp fleet to hold its own in the international world. Neither has Indian shipping received any such subsidy from its own Government for wiping off the losses incurred during the Dutch freight-war of 1949, nor has it got any financial assistance to enable it to continue to run the fast passenger service inaugurated by it between India and the U.K. at the insistent appeal of the Government of India even for breaking even, despite the definite assurance of such help contained in the announcement of the Shipping Policy of the country and the promises given by the Commerce Minister when the service was started.

Self-help

There is an impression in certain interested quarters that private enterprise did not itself raise resources for buying additional tonnage, but depended entirely on the finance provided by the Government for that purpose. Let us examine what the correct position is. During the pre-Plan period, private enterprise invested in the purchase of additional ships Rs. 22.30 crores from its own resources. During the first Plan, it invested Rs. 18.42 crores from its own resources and borrowed Rs. 22.52 crores as loans from the Government. *It would thus be noted that, during a period of ten years from 1946-56, out of an investment in additional tonnage of the value of more than Rs. 63 crores, nearly Rs. 41 crores, or a little over 65 per cent., was raised by private enterprise from its own independent resources.* Both, therefore, in the matter of finding its own finance and in starting and building up new services in international waters, private enterprise has played a part which is bound to win the confidence and appreciation of the people of the country.

Mr. Shastri's Efforts

As the Minister for Transport and Communications, Mr. Lal Bahadur Shastri started in right earnest and actively tried to implement the National Shipping Policy of 1947. He first assured the country as to how preference would be given to Indian ships for the carriage of Government cargo and how such preference would not constitute an act of flag discrimination. He remarked:

"As I have already stated, Govern-

ment have been assisting and will continue to assist the Indian overseas ships by allotting them as much Government cargo as is feasible."

He further added:

"Government cannot, however, forgo its right to nominate ships for cargoes moving on its own account—a right which is enjoyed by all shippers. We do not accept the proposition that the exercise of this right is an instance of flag discrimination nor can the clauses in our trade agreements be characterised as constituting flag discrimination."

Secondly, he made it clear that there would be no competition between the two sectors. Laying down the principle for action in this connection, he stated:

"I may also state it very clearly in this context that it is not our intention that shipping in the public sector should run in competition on routes on which existing private shipping companies have established themselves."

Thirdly, he called upon the Indian shipowners to expand the area and scope of their shipping activities and promised them that the Government would give them all assistance and support for that purpose. In this connection, he made the following declaration:

"I am also hopeful that our Indian companies will not only be able to give more regular and faster services on existing routes, but also expand the area and scope of their activities and I wish to take this opportunity of extending the assurance that Government will continue to render all possible and necessary assistance and support towards the achievement of these objectives."

He then went on to add:

"I would very much wish that we should plan for the purchase of 25-30 ships more within a short period to fill the existing gap in the coastal shipping. The Transport Ministry is also exploring the possibility of getting a number of new or even second-hand ships, from abroad."

The hopeful and encouraging note which Mr. Shastri struck in his various speeches enabled the shipowners to fulfil their obligations of reaching the target of 600,000 tons by the end of the first Plan. When we add the tonnage of the 17 ships which were under construction on the 31st March 1956 of a little over 109,000 g.r.t., we find that the target exceeds 6 lakhs of tons.

Second Plan Target

This filled the shipowners with a new spirit of optimism and the Study Group appointed at the meeting of the Consultative Committee of Shipowners held at Bombay on 20th November 1954 recommended that the target of the second Plan should be an additional tonnage of 535,000 g.r.t. at an approximate cost of Rs. 80 crores. It was unfortunate, that this additional tonnage to be added during the second Plan was cut down to 300,000 tons only and the proposal of the Study Group to allot the sum of Rs. 80 crores was drastically reduced to the amount of Rs. 37 crores. Despite the following statement made by Mr. T. T. Krishnamachari, the then Minister for Commerce and Industry, in the Lok Sabha, on 16th April 1956, that

"The second Plan provides for an increase of shipping tonnage by another 300,000 tons, bringing the total to about 900,000 tons. *May I say that it is far short of our needs?* We shall require almost immediately, within the next two years, at least 50 ships on Government account for carrying cargo for which we are making commitments." (Italics mine.)

the Planning Commission did not increase the target of 300,000 tons fixed by them even by a single ton.

With a view, however, to ensuring that the new awakening created amongst the shipowners for the rapid expansion of the Indian tonnage as a consequence of the help and support which the Government were prepared to give did not disappear but actually became more intense, Mr. Shastri made the following appeal to them:

"*Both the Government and the shipowners would have to take some risks and should go in for the expansion of the tonnage in a bold way.* If we succeed in spending the whole of the sum well before the end of 1961-62 and are able to secure additional funds, it may yet be possible for us to attain a total tonnage of one million g.r.t. before the second Plan period is over." (Italics mine.)

As a result of this appeal, orders for the purchase and/or construction of additional tonnage were placed in the year 1956 which exhausted the entire sum of Rs. 37 crores allotted by the Planning Commission. This led Mr. Shastri to express his satisfaction in December 1957 and to observe "never in the history of Indian shipping was so much progress made in a single year (1956)."

Ever since the beginning of the second Plan, India has been facing the foreign exchange crisis. It became more acute during the second and third years of the second Plan. The Minister then urged the shipowners to make their own arrangements for the acquisition of additional tonnage under the "deferred payment" or the "self-financing" or the "pay-while-you-earn system. It redounds highly to the credit of private enterprise that, while the public sector acquired four ships of 34,953 g.r.t. under this arrangement at a cost of Rs. 3.85 crores, private enterprise went in for 32 ships with a tonnage of 136,968 g.r.t. at a cost of over Rs. 10 crores. This shows how private enterprise has been doing its best, in spite of the period of depression in shipping, which has been exhausting its very meagre resources, to play its part in the service of our motherland.

Such acquisition of additional tonnage by private enterprise by making its own arrangement for foreign exchange enabled it to help the Government in carrying out its obligations in the initiation and maintenance of the Indo-Soviet and Indo-Polish services. The two leading shipping companies placed their steamers for beginning a service between India and Soviet Russia. All this was possible because the shipowners had great faith in the integrity of the Transport Minister and in the promises and assurances of support and help which he had given now and again for promoting the cause of the Indian merchant navy.

Hitting the Target

This spirit of co-operation between the Indian shipowners and the Transport Minister made possible by a genuine desire on the part of Mr. Shastri to implement the National Shipping Policy, will, it is hoped, enable the country to fulfil the target of 900,000 g.r.t. by March 1961. According to the latest information available from official sources, India's tonnage, including the tonnage of a little over 21,000 g.r.t. under construction for overseas trades, will reach the figure of about 854,000 g.r.t. by the end of the Plan. The tonnage of dry cargo ships on the coast will be about 250,000 and the tonnage of tankers on the coast will be about 23,832 g.r.t. The tonnage of dry cargo steamers in the overseas trades will be a little over 577,000 g.r.t. If the two super-tankers of about 45,000 g.r.t., for the purchase of which negotiations have been going on for some time, are favourably completed, the tonnage at the end of the Plan will reach the figure of 900,000 tons. Private enterprise deserves great credit for the manner in which it has striven to fulfil the target of the second Plan, despite the losses which it has sustained owing to a serious fall in the rates of freight.

New Difficulties

1. *Diversion of cargo by the railways*: Railways have always diverted cargo from the sea to the rail route. The number of colliers which were fixed from Calcutta for carrying coal witnessed a considerable fall month after month. Salt also from the Saurashtra ports began to move for the first time on rail. This seriously affected the volume of the coastal trade. The Minister of Shipping lamented, in one of his speeches, that there was no sufficient cargo now available for the number of ships trading on the coast. A Study Group, appointed by the Consultative Committee of shipowners, after referring to the diversion of coal, salt, bone-meal, etc., from the sea to the rail route, summed up the seriousness of the issue in the following words:

"After all, it is the Indian capital that is invested in railways as well as in shipping. It will, therefore, be a tragedy if the railways were to divert the cargo from the sea to the rail route as a result of its superior strength or as a consequence of its rate manœuvring policy and thus militate against the efforts of shipowners to build up an adequate merchant fleet for the country."

That Group, therefore, emphasised that

"the rail-sea co-ordination should be based on the full and economic employment of coastal ships and on the direct adherence to the understanding of not diverting any cargo now moving or suitable for movement in future, by sea to the rail route by offering uneconomic rates or by the introduction of any such similar methods."

In response to the situation that was developing and the manner in which the volume of cargo on the coast was going down, the Government of India appointed a Committee, known as the Rail-Sea Co-ordination Committee, in June 1955. One of the most important terms of its reference was "the need for developing adequate coastal shipping in the larger and long-term interests of the country." The main recommendations of that Committee emphasised the creation of opportunities for Indian ships to carry at least 40 lakh tons of cargo on the coast per annum and to build up by the end of 1959 a tonnage of at least 4.2 lakh tons for the coastal trade. Although these recommendations were accepted by the Government of India, the movement of cargo on the coast, instead of witnessing a rise, has witnessed a further fall; as against the carriage of 28.82 lakh tons in 1954, the cargo carried in 1959 came to only 24.92 lakh tons. There was thus a contraction of nearly 4 lakh tons in the volume of cargo carried on the coast. This indicates a fall of nearly 15 per cent. There are no prospects of the cargo witnessing any further rise as the apprehensions that the railway will draw away more coal and salt to the rail route are not misplaced. Although the *ad hoc* Committee of the National Shipping Board had recommended that there should be an addition of about 190,000 g.r.t. to the coastal tonnage during the third Plan period, wiser counsels prevailed, and the National Shipping Board, while considering that recommendation and in view of the seriousness of the situation that was developing, left the matter to be dealt with at the higher ministerial and Government level, so that the objective of building up an adequate coastal shipping in the larger and long-term interests of the country, as laid down by the Government, may not be defeated. One wonders whether this weak-knee surrender to the aggressive attitude of the railways can be tolerated in a true and living democracy and whether it is in the best interest of national economy and national security.

2. *Government cargo and uneconomic rates of freight*: Although lakhs and lakhs of tons of cargo were either imported or exported on acount of the Government, an exceedingly small quantity of cargo was carried in Indian bottoms. If we were to confine ourselves only to the import of foodgrains, we would find that, in the absence of adequate number of ships belonging to India, the country had to sustain an enormous drain on her meagre foreign exchange resources. For instance, the country had to pay a total freight of Rs. 229 crores on the 32½ million tons of foodgrains which were imported into India from 1946 to 31st March 1959. Out of this huge sum of Rs. 229 crores, as much as Rs. 212.49 crores were paid by way of freight to ships on the foreign flag. Indian ships could earn only freight of Rs. 15.56 crores. It will thus be noted that, while 93 per cent. of the freight was paid to ships of the foreign flags involving a drain on the country's foreign exchange resources, Indian ships could secure the tiny little figure of 7 per cent. only. Such a state of things fully justifies the rapid development and expansion of Indian tonnage. It was to meet this grave situation that was developing that Mr. Lal Bahadur Shastri gave expression to the lack of adequate co-ordination amongst the Ministries of Government and arrangements not helpful to the cause of Indian shipping in the following words:

"There has, I feel, not been adequate co-ordination between the Department of Transport, on the one hand, and other Ministries of the Government of India concerned with imports and exports, on the other. This is evident from the fact that a number of contracts for import has been entered into on c.i.f. basis and for exports on f.o.b. basis. Such arrangements do not help the cause of Indian shipping."

With a view to promoting such co-ordination and help the cause of Indian shipping, a Shipping Co-ordination Committee was formed in 1958 at the initiative and inspiration of Mr. Lal Bahadur Shastri. The real object of the Committee was to ensure the giving of first preference to Indian ships to carry Government cargoes and thus enable India to build up a large merchant navy. At the meeting held for the establishment of a Shipping Co-ordination Committee on the 3rd January 1958, its President, Mr. T. T. Krishnamachari, the then Minister of Finance, in summing up the discussion, remarked that *not only should the Ministries of the Government of India make every endeavour to utilise Indian shipping, but they should also remember that, in considering the Liner rates, they should not consider temporary charter rates as always decisive, and thus ignore the long-term view in the larger interests of India.* It was also recommended that the Ministries of the Government should endeavour to make import contracts on f.o.b. basis and export contracts on c.i.f. terms. It is a tragedy that these fundamental factors of our shipping policy have not been adhered to and Indian shipping has been called upon to carry Government cargo at the lowest tramp chartering rates available in the market. The larger and vital issue of building up a navy of supply for India, taking advantage of the huge quantity of cargo—both imports and exports—moving on Government account and thus both saving and earning substantial amount of foreign exchange for India—particularly at a time when India has been passing through a growingly acute foreign exchange crisis—has receded in the background and has not remained now any concern of that Co-ordination Committee. The latest development is the constitution of a sub-committee called the Chartering Committee, consisting of officials only, and the rates they offer are the lowest tramp chartering rates in

(Continued on page 168)

Collecting Agricultural Statistics in the U.S.

By S. R. NEWELL
CHAIRMAN, CROP REPORTING BOARD

ONE of the most complex tasks faced by any Government agency in the United States of America is that of providing the nation with statistics on its ever-changing, ever-growing agriculture.

Farming always has been fraught with decisions. Today, more than ever before, it is a business that takes planning and management. So, timely and reliable reports on crop acreage and production, livestock output, farm labour, and prices are important to farmers, businessmen, researchers, and the Government in America.

The agricultural estimating programme that has been developed in the United States is based on the following:

1. Centralising authority and standardising procedures.
2. Maintaining permanent records, with data comparable to earlier data.
3. Striving for accuracy.
4. Safeguarding confidential information.
5. Following a rigid scheduling of reports.
6. Preventing speculation by insiders.

In order to better understand the present-day system of collecting farm facts in this country, one needs to look back to the beginning of crop reports issued by the Government.

Nearly A Century Old

Ever since the 1860's, when unscrupulous speculators tried to take advantage of upset conditions in the farm produce market, the U.S. Department of Agriculture has been publishing official crop reports. Its first crop report, in 1863, was compiled from brief questionnaires sent to about 2,000 farmers scattered throughout 22 States. Their answers enabled the Commissioner of Agriculture, newly appointed by President Abraham Lincoln, to announce officially that there would be a food shortage.

Even before that time, American farmers felt they were at a disadvantage when selling their products because they knew less about crop and livestock supplies than did the buyers. The first attempt by the Federal Government to improve the farmer's bargaining position by increasing his knowledge of crop conditions came in 1839. At that time, Congress authorised the Patent Office to spend $1,000 for the distribution of seeds and the collection of agricultural statistics. So, crop reporting is older than the Department of Agriculture itself. When the Department was established in 1862, one of its main functions was to collect statistics on agriculture.

Today, the purpose of agricultural statistics is the same, although the needs have grown tremendously.

The Machinery

The Federal agency that gathers and disseminates the basic statistics of agriculture is the Department's Crop Reporting Board in the Agricultural Marketing Service. Its office in Washington, D. C., is made up of six branches: Field Crops Statistics, Fruit and Vegetable Statistics, Livestock and Poultry Statistics, Dairy Statistics, Agricultural Prices Statistics, and Agricultural Surveys. There also are a research and development unit and various administrative and co-ordinating units.

Besides the office in Washington, there are 43 field offices covering the 50 States, as well as a regional livestock office in Denver, Colorado, a separate dairy office in Chicago, Illinois, and co-operative research laboratories in Ames, Iowa and in Raleigh, North Carolina.

The central office in Washington allocates funds, assigns personnel, and issues standard instructions for all offices for specific procedure and reports.

The work force in Agricultural Estimates Division, which includes the Washington offices and the field offices, totals about 800 full-time persons. Of this number, about 270 are trained statisticians.

To finance agricultural estimates work, Congress this year appropriated $6,400,000. The amount has steadily increased over the years. Twenty years ago, the annual budget for this work was $1,272,000, while 10 years ago it was $2,875,000.

In most of the field offices, formal co-operative agreements are maintained with some State agency—usually the State Department of Agriculture or the State College of Agriculture. This largely eliminates duplication in statistical projects. State funds usually are used to provide more complete details on certain commodities, reports of commodities of local interest, less than State-size in area such as county estimates, and other data which would not be possible with available Federal funds.

Most crop reports then are the product of this joint Federal-State crop and livestock reporting system.

Sources of Information

Many sources are tapped for information to be used in preparing the crop, livestock, and price reports—about 500 issued each year on about 150 different crops. Most of the basic information on production of crops and livestock comes from some 800,000 farmers and ranchers who are crop reporters. They serve voluntarily, without pay, submitting their reports by mail. In return for their help, the crop reporters receive published reports to assist in decisions in their farming. They also serve with the knowledge that they are taking part in a vital public service. Some crop reporters have served faithfully for 30, 40 or 50 years. In many families, the reporting job is handed down from father to son.

Other pertinent information comes from about 200,000 non-farmers who also are unpaid volunteers. They include country merchants, mill and elevator operators, bankers, stockyard operators, meat packers, processors of farm products and operators of many, many other enterprises connected in one way or another with agriculture. These reporters provide prices that farmers receive for their products and that farmers pay for goods they use. They supply the information used in calculating mid-month prices and the parity index.

To maintain the different lists of crop reporters is a continuous and exacting job. Each field office develops and maintains representative lists that will provide good basic data on which to base crop forecasts and other agricultural measurements. To build lists, names of prospective reporters are taken from records of State and county offices, and from a random distribution of questionnaires by rural mail carriers. Other names are added at the recommendation of county agricultural agents, country bankers and active farmer-reporters.

Millions of Questionnaires

Although a few lists are maintained in the Washington office of Agricultural Estimates Division, practically all of the questionnaires are sent out by the field offices. Each of these offices is staffed by three or more trained statisticians who are familiar with agriculture and a clerical force which averages seven to eight persons per office.

Rural Free Delivery of mail provides the most economical and rapid means of obtaining answers to questions about crops, livestock and prices. Most of the information from farmers and non-farmers is obtained from questionnaires mailed by the statistician in charge of each of the 43 field offices of the crop and livestock reporting system. About 9 million such questionnaires are sent out each year, with close to 3 million filled in by the crop reporters and returned to the field office. Some reporters are asked to report every week or two, some every month, every quarter or perhaps once or twice a year—depending upon the list their names appear on and the report requested.

The percentage of questionnaires returned varies widely, depending upon the type of survey and kind of respondent. The returned questionnaires are reviewed, tabulated, analysed and interpreted by the field office statisticians. But for the regular monthly survey on crop conditions, prospective yields, milk and egg production and farm labour, 35 to 40 per cent. of the 90,000 mailed out are returned.

Mail lists used for voluntary mail sampling are continually being analysed, strengthened and otherwise improved. Arithmetical accuracy is accomplished by much checking. Proper weighting of survey results makes for more adequate statistical indicators. Improvements are being made as research is carried out on improved and new methods of voluntary mail sampling.

Objective Counts

Although the field offices rely heavily on questionnaires, they also keep in mind their own field observations and discussions with farmers and those who serve farmers. This is supplemented by objective counts, actual measurements, enumerative surveys and data from many other sources. In recent years, intensive research has been done in several types of personal interview probability sampling as additional indicators of crop size.

Although there are some differences in procedures of estimating various crops, they generally are quite similar. In case of the principal crops, the reports run rather uniformly from acreages intended to be planted and acreages actually planted and that expected to be available for harvest, through monthly forecasts of yield and production during the growing season, to estimates of acreage harvested and production after harvest.

Estimates for a particular crop during the early part of its growing season are generally referred to as "forecasts" and are based on available information and average weather for the balance of the season. Of course, factors beyond the knowledge and control of man can cause crop situations and forecasts to change. So, changes in the forecasts as the season progresses are normal. A corn crop in a certain area may have excellent yield prospects one day and be wiped out by hail a few days later, or materially reduced by a week of dry weather. Or a bumper crop of oranges almost ready for harvest might be ruined by a hurricane.

The field offices receive the voluntary mail sample from crop reporters, review, summarise or stratify, weight the returns by districts and prepare the initial estimates for their States from regression charts and general field observations supplemented by indicated crop size indications from probability samples of areas. Then, they send them with supporting data and comments to the Crop Reporting Board in Washington for review and compilation with estimates from other States.

In the Department's expanded programme in agricultural estimating and forecasting, enumerative sample surveys are entering the picture more and more. During the coming year, an area sample containing about 15,000 farms in 15 States will be covered in this programme. Specially trained enumerators from the field offices will go into these scientifically chosen units of area to obtain from the farms information on such things as land use, number of livestock on farms, and farm labour. Two such surveys are made each year. The first in June to estimate planted acreage, livestock and farm numbers. The second comes in December to measure harvested acreage, production and the livestock inventory.

Objective yield work is becoming increasingly important in agricultural estimating, because counts and measurements of plants and fruit properly and carefully made, can take much of the guess-work out of early-season estimating of certain crops. The approach has been used to study and compute some objective yield forecasts for such field crops as cotton, corn, wheat and soybeans as well as the fruit and nut crops of oranges, lemons, peaches, pears, walnuts, filberts and pecans.

An Example—Cotton

For example, consider cotton. Shortly after the beginning of the growing season, trained technicians go into a few scientifically selected cotton fields. Following a strict plan, they mark off small sample plots inside which they count the number of plants. This gives them an estimated number of plants per acre. Counts are made of the number of plants, squares, blooms and bolls each month until harvest. This information is used to make an estimate each month of the cotton yield per acre. At harvest time, the cotton in the sample plots is picked and a careful record is kept of bolls and the weight of the seed cotton. In a laboratory, the cotton is allowed to dry and is reweighed so that the yield forecast can be made on a dry-weight basis. After harvest, cotton remaining in other sample plots is gleaned to determine how much is left in the field. This is used to adjust the final yield per acre so that it reflects the actual amount of cotton that goes to market.

Objective yield counts and enumerative surveys are just two of the many tools developed by the

Department to provide additional indications of crop size and to help interpret the information received from the volunteer crop reporters. A formula is developed by research on growth patterns and fruit size of the crop. Using counts of plants per unit of area and expected losses, an indicated crop can be computed.

Confidence Respected

All reports received from individuals and firms from the voluntary mail sampling or in the personal interviews are held in confidence. Individual reports are not available to the public or Government agencies, including tax agency representatives.

The Department is also extremely careful of its unpublished statistical data. This information is released only with adequate safeguards to governmental or educational agencies or administrative or research purposes.

Board Works In Secrecy

When reports on speculative crops are being prepared, the Board works within locked and sealed quarters until the moment the report is released. This is the Crop Reporting Board's "lock-up." At least 35 days a year, the Board works under most rigid rules of security to prepare monthly reports during the season on products like wheat, corn, cotton, oats and soybeans, which are traded on commodity exchanges as well as for the monthly report on prices farmers receive for things they sell and pay for things they buy. Such security measures are taken to prevent leaks of information. Any advance knowledge might permit speculators to make unfair profit.

For these speculative crops, figures from each State are airmailed, special delivery to the Secretary of Agriculture in Washington, D.C., where they go into a locked mailbox. Each piece of mail is listed as it goes into the box; it must be accounted for when it comes out on the day the report is to be prepared. Board officials and an armed guard take the mail to locked quarters. All shutters have been sealed, all phones disconnected. Guards stand watch outside. Only persons with proper identification cards may go in; no one comes out until the report has been released at the specified hour. (A daily schedule of report release dates for an entire calendar year is given to the public at least one month before the year begins.)

Inside the locked quarters, the Board studies the State material. The Board consists of specialists on commodities in the report, and of technicians from field offices. When reports are being prepared on major speculative crops, the Board usually is composed of six members, three of whom are from the field offices. Membership of the Board changes from month to month, so that all parts of the nation will be represented during the year and so that statisticians who have first-hand knowledge of commodities being covered will participate in the final review by the Board. Each member of the Board makes his own interpretation of the data for each of the speculative items for each of the States. The Chairman reviews these recommendations and if members are in disagreement concerning an item, they discuss it until agreement is reached.

Just before release time, copies of the report are taken outside to the release room under guard where news reporters are waiting, with telephone lines open. Not until the release officer gives the signal may the reporters dash to their phones to flash the news.

As soon as possible after the official State and national figures are released in Washington, the field offices release State and local figures. Everyone has access to the figures at the same time, which is the main reason for the rigid security measures taken when a crop report is being prepared.

Heavy Penalty

How carefully the secrets on all 500 crop, livestock and price reports issued in one year, are guarded is indicated by the penalty against anyone convicted of divulging information before release time—a fine up to $10,000 and imprisonment up to 10 years. Another regulation specifies a fine of $5,000 or 5-year imprisonment or both if false statistics or information is given out.

Speed and accuracy are the watchwords in crop reporting in the United States. Most of the major reports are issued monthly—generally the 8th to the 15th of each month—with figures relating to the first of the month.

Major Monthly Reports

Here are some of the major monthly reports:

Crop production contains acreage, yield and production forecasts and estimates of field crops and fruits, milk and egg production, quarterly farm stocks of grain and comments on the crop season.

Cotton production is issued July through December when cotton acreage or production forecasts and estimates are made.

Agricultural prices contains estimates of mid-month prices received by farmers for their products, prices paid by farmers for commodities used in production and living, indexes, parity prices and other price data.

Vegetables covers acreage and production of vegetables for fresh market and for processing, by seasons.

Hatchery production shows numbers of chicks and turkey poults hatched, and eggs in incubators and chick orders booked.

Fluid milk and cream reports supplies in important markets, prices paid by producers, and prices at retail.

Livestock slaughter shows number of head and average live weight and total weight of livestock slaughtered in commercial plants.

Western range and livestock report shows condition of western ranges, cattle and sheep.

Evaporated, condensed, and dried milk reports production and prices of these items.

Cattle and calves on feed reports numbers on feed by States, classes, length of time on feed, and weight groups.

Weekly reports are issued on such items as chick placements in important broiler areas, creamery butter production, American cheese production and certain vegetables.

Important annual reports include the inventory of livestock and poultry, disposition of field crops and income from livestock and poultry. The pig crop reports are prepared twice a year for all States and four times for 10 of the important hog producing States.

All records are permanent, and are comparable to those for the same items in earlier months and years. Records are carefully maintained of mail or personal interview survey data and records are continuous for all estimates that are prepared.

Checking and Rechecking

The first estimates published on a particular commodity are regarded as preliminary and subject to change as new information becomes available. Much valuable check data is obtained from commercial concerns. For example, data are collected and evaluated on quantities of cotton ginned, rice or soybeans milled, livestock slaughtered. Other important check information includes the U.S. Census of Agriculture every five years which helps establish "bench marks" for estimating, and the farm censuses conducted every year in 12 States.

It is this kind of checking and rechecking that makes the reports reliable and accurate. The object is to give the users the best facts obtainable.

The Beneficiaries

Who are the users of these crop, livestock and price reports?

There are now about 4 million farm operators in the United States. They need good statistical information, if they are to decide intelligently what to produce, and when and where to sell it.

Another five million persons engaged in processing and distributing farm products and their by-products must have timely statistics if they are to operate efficiently. There, also, are those who manufacture things the farmer needs—farm machinery, fertiliser, and other farm supplies. Agricultural statistics help these groups locate their markets, place their factories, or distribute railway freight cars and trucks. To the farmer, this means the kinds of goods and services he wants are more likely to be ready for him when he wants and needs them.

Also benefiting from the crop and livestock reporting system are millions of consumers of agricultural products. Daily newspapers, farm and trade publications, radio and television stations—all important users of farm facts—help consumers make use of agricultural statistics as guides to buying.

Perhaps the largest individual user of agricultural statistics is the Government—Federal and State. Production controls, price supports, and allotment and conservation programmes are based upon statistical information.

Also, agricultural statistics are used by many international groups and agencies.

Farmers, businessmen, administrators and legislators have come to rely more and more on statistics. They need them to know what is happening in agriculture and to show where their economic problems are. They need them to serve as guidelines both for current activities and for planning ahead.

So, day in day out, year in year out, unbiased crop, livestock, and price reports are released to the public. Underlying each report is the fundamental view that initiated crop reporting in the United States more than a century ago—to put farmers on an equal bargaining basis with buyers and to reduce speculation in buying and selling farm produce.

PROTECTION TO INDUSTRIES

(Concluded from page 85)

the protected sector has made its due contribution to the national economy.

IV

Prospects

Apart from the principles and problems relating to protection which have been dealt with, certain comments would be useful on the prospects of protection for the future. There have not been many applications for grant of protection during the last decade and none during the last five years. A possible reason is that, under the present conditions, industrial development can take place without the specific need for extensive tariff protection. In many instances, except for certain low rates or exemptions for essential raw materials as also for industrial machinery, the Indian Customs Tariff already has high revenue duties. Import control restrictions which have been increased with growing adverse payments position in the present stage of development and measures taken to keep down non essential imports, particularly imports of articles available indigenously or that could be substituted by indigenous products, have also acted indirectly as fillip to industry. In this context it has not been unusual for outsiders as well as for industry itself to say that, in many cases, tariff protection is meaningless or superfluous. Import control measures are in no sense part of the scheme of tariff protection. Administrative and financial expediency largely affect the moulding of import control policies. These serve a limited purpose. But, for a planned development of an indigenous industry standing in need of protection, these measures cannot be long-term substitutes for tariff protection. A detailed examination of the position of the industries concerned by the Tariff Commission, on the basis of which the quantum of protection is determined by statute and regulated from time to time, together with a review of the working of protection and the watch kept on its progress and impact by the Tariff Commission and the report made by it to Government, all these would far better serve Government in their assessment of progress of industrial development, in general.

AIRCRAFT INDUSTRY FOR INDIA

(Concluded from page 127)

taken into account. In addition, there must be a complete range of power plants from the small unit suitable for a light aircraft up to the most powerful jets. This side alone is in itself a vast manufacturing undertaking.

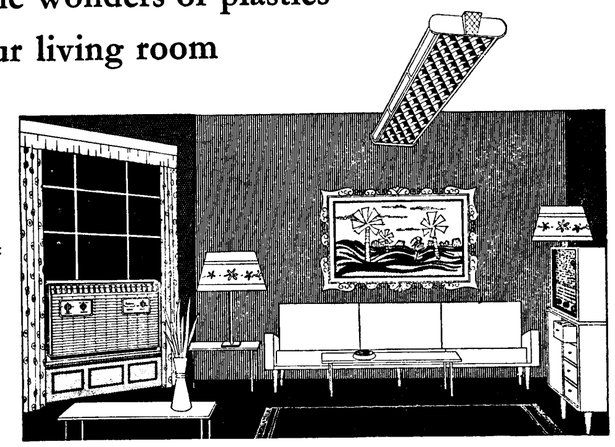
The greatest limitation to quick progress is the time required to train suitably qualified technicians. Not only do we require the ordinary workshop engineers, there must also be highly skilled technicians, radio and radar experts, men versed in electronics and hydraulics, instrument makers and a variety of specialists, even including those who design kitchen equipment. In the background, but most important of all, there must be a whole research organisation staffed by technical experts and scientists. All these personnel requirements have to be met. In my opinion, far too little attention is being paid to the training of technical staff who will be required five and ten years hence in an expanded aircraft industry. There is no short cut in respect of training aviation staff. Only those who have passed successfully through complete courses and who have had years of experience afterwards can be relied upon to perform the vital jobs, producing each part with the perfection that is essential to the successful modern aircraft.

In conclusion, it is unwise to demand that the existing manufacturing facilities should undertake too many projects. We have to face the fact that it will take at least twenty years to develop a full-scale aircraft industry. Those who ignore this cautious approach are liable to land our growing aircraft industry in serious trouble.

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PROGRESS OF PLANNING IN PAKISTAN

Balance of Payments Better, But Price Levels High

By Dr. ANWAR IQBAL QURESHI

ECONOMIC AND BUSINESS CONSULTANT, KARACHI

PLANNERS in Pakistan have been considerably handicapped in drawing their plans to break the vicious circle of the country's stagnant economy due to late start of its First Plan in July 1955 and lack of wholehearted co-operation for the First Plan, both from people and the previous Governments. Adequate spade-work was not done in the beginning to take the people into confidence and to prepare them for the sacrifice and efforts to be involved in the successful execution of the Plan. Furthermore, no proper publicity was given to the Plan itself. The rulers of the country were too busy with power politics and too unsecure to take any interest in long-range economic policies. The Plan, which was scheduled to start from 1st July 1955, did not even receive the formal approval of the Government until 1957. As a result, even the modest targets of the First Five-year Plan were not realised. The Plan envisaged a modest total expenditure of Rs. 10,800 million, which fell short by about 20 per cent. due to various reasons.

Due to static food production and rapidly growing population, the gap in food deficit widened further, with the result that the country had to import foodgrains worth Rs. 700 crores as against the allocation of Rs. 400 crores under the First Plan. This severely upset other calculations on resources; especially, foreign exchange had to be diverted from other sectors to fill the empty bellies. Many industries, which had already been set up before the First Plan, were not operated at their optimum capacity for lack of imported raw materials and non-availability of necessary spare parts.

The non-development expenditure increased above expectations, thus, reinforcing Parkinsons law. Earnings of foreign exchange fell short of planned targets mainly because of adverse terms of the trade. Both the population and the prices increased beyond all calculations. As a result, the National Income (at constant price), instead of showing any rise, actually declined slightly on a *per capita* basis.

Approach and Aims

It will thus be seen that the planners of the Second Five-year Plan were faced with a rather difficult task. However, this time they were fortunate in having a strong and stable administration to back their plans. They found a very willing and enthusiastic ally in the person of the Head of the State, who was vitally interested in planning and promised all-out support and help in the execution of the Second Plan, which took effect from 1st July 1960.

The Chairman of the Planning Commission, in a preface to the Plan, has observed:

"It may be noted that no doctrinaire assumptions underlie the Plan, and neither an exclusively capitalist nor an exclusively socialist economy is postulated. The approach throughout is pragmatic. The fundamental problem is how, under severely limiting conditions, to find some way towards the liberation of the people from the crushing burden of poverty. The compelling consideration is that the economy must grow at a rate which must be faster than the increase in population; also, the pace of future growth must be such as to lead with expedition towards a modernised and self-sustaining economy."

Further, explaining the main aims of the Plan, he observed:

"Specifically, three dominant strains run through the Plan. First, the stubborn problem of agricultural production, low productivity and inability of the country to feed itself, is to be attacked vigorously; the aim is to achieve a break-through in agriculture. Although this objective will strain the organisational ability of the country to the utmost, its achievement should be within the range of possibility if energetic and sustained efforts are made. Second, the aim is to push ahead with industrial development by encouraging private enterprise in all practicable ways and by freeing the economy from superfluous restraints. Public policies to this end are recommended in the Plan. Controls, which have a strangulating effect on private initiative, will need to be relaxed, replaced progressively by fiscal and monetary measures and operation of the market mechanism. And third, education at all levels is to be expanded and advanced as fast as the required institutions and personnel can be provided."

Size of the Plan

The Second Five-year Plan envisages a total expenditure of Rs. 19,000 million, as compared with an expenditure of Rs. 10,800 million in the First Five-year Plan.

This expenditure is classified below according to the sectors of economy in which this will be incurred:

	(Million Rs.)
Expenditure in the public sector	9,750
Expenditure in the semi-public sector	3,250
Expenditure in the private sector	6,000
Total ..	19,000

We give a table below showing the important items on which this has to be spent:

Second Plan Development Programmes

(Million rupees)

	Public sector	Semi-public Sector		Private sector	Total
		Contribution from Government	From own resources, private investment and loans		
Agriculture	1,660	..	..	880	2,540
Water and power	3,140	..	190	60	3,390
Industry	125	1,045	500	2,380	4,050
Fuels and minerals ..	125	175	..	550	850
Transport and communications	1,990	110	420	830	3,350
Housing and settlements ..	895	420	390	1,135	2,840
Education and training ..	890	..	..	100	990
Health	350	..	..	50	400
Manpower and social service	95	..	..	15	110
Village aid	480	..	..	..	480
Total ..	9,750	1,750	1,500	6,000	19,000

The expenditure involved in financing the Plan may not look very colossal in absolute terms. But financing a plan of this size is no easy task, especially when account is taken of the meagre internal resources. Here, one finds a vicious circle. The actual resources of the country are too meagre to allow for any bold planning. However, without any bold planning, this vicious circle cannot be broken. As a matter of fact, it has a tendency to get more hopelessly complicated. The remedy, it has been suggested, lies in breaking the circle by giving a bounce to the economy, so that it can get out of the clutches of this malignant circle.

Therefore, even at the risk of some inflation and sacrifice by the population at large, it is proposed to raise Rs. 11,000 million from domestic resources and the balance of Rs. 8,000 million from external resources in the form of foreign loans, equity investments and foreign aid. It is obvious that it is not possible to give any breakdown of the external sources of finance owing to their problematic nature, especially of foreign equity investment.

What is the Plan Expected to Achieve?

The Second Plan aims at increasing national income by 20 per cent. In view of the anticipated increase in population of about 9 per cent., this will mean an increase of about 10 per cent. in *per capita* income. If a self-generating economy is to be achieved within a reasonable time, the proposed increase in national income is the minimum required during the Second Plan period.

The highest priority is attached to increasing agricultural production. It is stipulated that the present gap in food supply should be closed and foodgrains production raised to the level of self-sufficiency. This will require a major effort. Effective agricultural programmes and administrative policies to execute the programmes will have to be devised; increased provision and utilisation of fertilisers, pesticides and other aids to agriculture will have to be undertaken; consumption will have to be held at a reasonable level; and about 9.5 million acres of land will have to be provided with new or improved irrigation, drainage, flood control or reclamation facilities. An overall increase of 14 per cent. in agricultural output is projected.

A substantial increase is proposed in industrial production: the value added in production is projected to rise by 60 per cent. in large- and medium-scale industries and by 25 per cent. in cottage and small-scale industry; provision is made for optimum utilisation of existing capacity and substantial additional investments for its balancing and modernisation. New capacity is to be established where it demonstrably and substantially earns or saves foreign exchange or is based in the main on the use of indigenous raw materials. Basic industries are to be encouraged where economically feasible. Special emphasis is placed on the development of small-scale industries, both because of their intrinsic merits and because of their employment potential. In particular, those major industries are to be encouraged which stimulate agricultural development or which support small-scale industries. Private investment in industry is to be given maximum encouragement.

Increases in agricultural and industrial production will require further development of water and power resources, transportation, and communications. In particular, it is necessary that transport keeps abreast of increasing development requirements. Large investments will be needed for the rapid completion of on-going projects as well as for undertaking selected new schemes. The Plan aims at ensuring that deficiencies in these basic services do not jeopardise achievement of production and income targets.

The Plan aims at narrowing the present gap between foreign exchange earnings and the essential non-development import requirements of the country. The attainment of this objective will require much effort. In particular, agricultural and industrial output will have to be stepped up with a view to increasing the production of exportable goods and of import substitutes. Improvement in the balance of payments position has been the principal consideration in determining the various production targets set out in the Plan.

The development of human resources suffered much neglect during the First Plan period. Measures are suggested in the Second Plan to make up some of the deficiencies. Education is accorded a high priority. Institutional facilities are to be expanded; and emphasis laid on technical and vocational education, particularly to meet the requirements of the Plan. A nationally co-ordinated programme for training and use of manpower is to be undertaken. Health and social service facilities are to be reorganised and expanded. Consideration is also given to improve the living and working conditions and provide a measure of social security. Housing facilities, particularly for lower-income groups, are to be extended, although it will not be possible to eliminate the housing shortage in the near future. Finally, provision is made in the Plan for organising a programme of family planning. Hitherto, the fruits of economic development have been almost completely absorbed in maintaining an increasing population. The present menacing growth of population must be arrested.

An Appraisal of the Plan

To forecast, with any degree of accuracy, economic trends, for so long a period as five years, is by no means an easy task. This becomes all the more difficult for a country where about 60 per cent. of the national income is derived from agriculture, the production of which is subject to the vagaries of nature and the export prices of which are beyond national control. The difference between a good harvest and a bad harvest, especially of a major crop, is so colossal that it can make all the difference in the world in foreign exchange earnings. Stagnation in agricultural production in the past, which belied all the projections of the First Plan, necessitated large expenditure of foreign exchange to import foodgrains, which had serious repercussions on other sectors of the Plan due to lack of foreign exchange. The apple cart can be further toppled by adverse terms of trade, due to rise in the prices of industrial and consumers goods, which Pakistan imports, or a fall in the prices of raw materials, which Pakistan exports. Unfortunately, in the recent past, Pakistan, along with other raw material exporting countries, has been badly hit on both fronts. The prices of its main exports have largely fallen while the prices of goods which it imports have been constantly rising. It can thus be appreciated that the task of forecasting the resources for the Plan period is not an easy job.

Again, for a substantial part of the total requirements of the Plan (Rs. 8,000 million out of a total of Rs. 19,000 million) reliance has to be made on foreign aid, which, in spite of best intentions, is an uncertain factor. It will thus be seen that, while the country will be more or less committed for the expenditures in the Plan, and many of the projects, once started, must be completed at all costs, the sources of income are of highly problematic nature. Pakistan's friends, who are helping her, should realise that there can be no prosperity in isolation. Pakistan is amongst the poorest of countries even by standards of less-developed nations. If the vicious circle of poverty and stagnation has to be broken, the country has to rely on assured and steady external assistance, at least for some time to come. Therefore, barring other handicaps, the success of the Second Plan will depend on the assurance of the availability of the funds envisaged in the Plan.

Important Reliable Statistics

The task of planning becomes an onerous one in countries which have no reliable statistical data on several important aspects of the nation's economy. Agricultural statistics, the accuracy of which is so vital for Plan projections, are subject to wide variations due to seasonal fluctuations. One recent example may be given to explain the vagaries of nature and the lack of adequate crops statistics. In the earlier part of the season, the tea crop for the year 1960-61 was estimated by the Government at 57.5 million lbs. The Chairman of the Pakistan Tea Board was somewhat more optimistic and estimated the crop at 60 million lbs. However, as a result of severe pre-monsoon draughts, it is feared that the crop will be much smaller, though the exact shortage cannot be determined at this stage. However, it is feared that the shortfall must be substantial, for all exports have been suspended.

According to the First Five-year Plan, production of tea in 1959-60 was to be 60.7 million lbs., a 15 per cent. increase over the base period (1951-52 to 1954-55) average of 52.8 million lbs. and export earnings were to amount to Rs. 40 million. As it is, the crop may be less than 50 million lbs. and the export earnings may only be marginal. This would mean a very bad omen for the Second Plan, which, accepting 54.3 million lbs. as the average output during the base period (1954-55 to 1959-60), expects 18 per cent. increase to 64 million lbs. in 1964-65, with the export earnings projected to Rs. 53 million.

Jute and cotton, which are the two principal export crops and mainstay of foreign exchange earnings, suffer from similar adversities of nature which make their yields and export earnings highly uncertain. Few setbacks in these may upset the whole range of Plan expectations.

A tragic part of planning effort in Pakistan is that agricultural production during the First Plan period (1955-60) has belied all expectations and defied all efforts for improvement. It was, therefore, right and wise, on the part of planners, to lay considerable emphasis in their Plan on increased agricultural production, and increased allocation of funds to achieve this end. If the expected targets are not reached in this field, it will result in a very serious setback to the Plan and the economy of the country.

Failure on the Food Front

So far, no marked progress has been made in the efforts to increase food supply nor has success been achieved in controlling the growth of population. If we could only reverse the trend, that is, succeed in decreasing our population and increasing our food supply, many of our troubles will come to an end. As it is, during the last 13 years, while there has been practically no increase in the total production of food crops, the population has increased from 72 million to about 89 million, showing an increase of nearly 25 per cent. This largely explains why, despite all-round progress and tremendous increase in industrial output, the country is still in the clutches of poverty and the economy is in the grip of stagnation. The planners have assumed a 1.8 per cent. annual increase in population during the next five years.

The rate of population growth in India is now estimated at 2 per cent. There appears no valid reason as to why the growth should be any less in Pakistan. If Pakistan's population is really expanding at the rate of 2 per cent., it will seriously upset many calculations of the Plan. Fortunately, the next census will take place early in 1961 and it will be possible to get more reliable data. It is suggested that a second look should be given to Plan targets if the census figures show larger variance with those figures which were available at the time of the preparation of the Plan.

There is a school of thought, which believes in the strength of numbers and asserts that each mouth, that has to be fed, brings two hands to feed it. This is quite true, provided the two hands get an opportunity to work. With serious underemployment in our agriculture and inflow of population towards towns, with their own rapidly growing population, the opportunities to work, in spite of increasing industrialisation, are rather limited.

Creating more employment requires addition of more capital which is by no means plentiful.

Cost of Living High

In spite of the best efforts of our planners no tangible relief has been forthcoming to the common man from the high cost of living. If anything, this is getting gradually higher and higher. The working class's cost of living index, which stood at 113 in Karachi in March 1959, rose to 127 in October 1960, and no relief in the immediate future is in sight. It is also noticed that, in spite of the strict budgetary policy of the Government and tighter control of expenditure, better financial discipline and stopping of policy of naked deficit financing resorted to by the previous Governments, the money supply has increased by Rs. 440 million in the course of the last one year. There is no doubt that, while expansion in money supply in the previous years was largely attributable to deficit financing by the Government, the Rs. 39-crore increase in currency circulation witnessed during 1959-60, is mainly due to increase in the foreign exchange balances, other causes being accountable to the extent of only about Rs. 5 crores. While the increase in the much-needed foreign exchange reserves is a cause for great satisfaction and has imparted considerable stability to the value of rupee which was falling at an alarming rate before the revolutionary regime, some of the side effects of the procedure adopted for building up reserves and their after-effects on the economy need to be carefully examined. This is all the more necessary, in view of large expenditure which has to be incurred during the Plan period.

Foreign Balances

The improvement in the foreign exchange balances during 1959-60 was effected both by reducing expenditure, including curtailing of imports, and by boosting exports mainly through the stimulus provided under the Export Bonus Scheme. While examining the economic condition as prevalent in Pakistan, one is faced with certain contradictory situation which calls for deeper analysis to make a correct appreciation of the problem facing the country. The dilemma is that, whereas, the present regime, following the principle of living within means, has almost completely eliminated the once very popular method of deficit financing, and to some extent reduced its expenditure of administrative and of non-developmental nature, the overall price situation has continued to rule high and the benefits of all these measures have not passed on to the general consumers and the public to any appreciable degree. Why has it been so? This is the most pertinent question very often asked in every quarter and no satisfactory explanation has been forthcoming. The subject is of vital importance, for it affects each and every member of our society and needs to be examined more carefully by our planners as it will seriously affect Plan targets regarding increase in the standard of living.

As to the question. How is that, despite Government's strict adherence to the policy of not resorting to the deficit financing programme, the prices have not shown any fall? It may be mentioned that, though there was no direct recourse to deficit financing, the after-effects of some of the measures adopted by the Government were as much inflationary in nature as the deficit financing itself. The building of foreign exchange reserves through stepping up exports had the effect of withdrawing corresponding amount of goods from the home market. This would have been very well neutralised if imports had been freely allowed. Simultaneously, money supply rose to the extent of surplus in the balance of payments in the form of deposits. So, in effect, it has the same impact as the creation of money through deficit financing on the price level "as too much money chasing too few goods." Moreover, the *modus operandi* of the equilibrium achieved in the economy was such that it had ample scope for giving rise to inflationary potential of the secondary and tertiary nature.

Export Bonus Scheme

This *modus operandi* was through working of the Export Bonus Scheme which was instrumental, to a considerable degree, in boosting exports in the recent past and the surplus in the balance of payments is largely attributable to successful working of this scheme. Apart from its direct result of creating a gap between export and import which is reflected in the rise in our balance of payments reserves, it had the effect of disturbing the price structure ruling in the country. This was because of the fact that the goods imported under the Export Bonus Scheme were quoted at a much higher premium than those imported under ordinary licensing system. As it was not possible, in practice, to divide the market into watertight compartments, comprising goods imported under ordinary licensing system and those under the Export Bonus Scheme, the overall effect, under

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conditions of excess liquidity in the economy, was bound to be an upward movement of price level. The general level of prices rose in sympathy with the prices of goods imported under the Export Bonus Scheme.

Another feature of the condition created by the Export Bonus Scheme was that, whereas the goods imported for general consumers were largely of the luxury category, the scarcity created, consequent upon the working of the scheme, was mostly of the category of necessity which included yarn, coarse cloth, jute bags, tea and some eatables.

Price Trend

A price rise of 2 per cent. per annum has been assumed in the Plan. It has been based on the presumption that enough food and basic consumer goods will be available in the country and the Plan targets will be realised. If past and recent experience is any guide, this assumption, though quite correct theoretically, seems somewhat unrealistic. Even if we ignore the large increase in the price level witnessed during the last twelve months, the average increase in price level, during the past five years was about 4 per cent. as reflected in the cost of living indices. And even this rise is somewhat deflated due to inclusion of rationed goods and controlled prices. In India, for the same period the rise has been between 4½ per cent. and 6 per cent. In view of the large injection of money into the economy, not only as a result of development expenditure, but also due to increased ordinary budgetary expenditure and the colossal amount which is to be spent on canal replacement works, the dangers of inflationary potential should not be minimised. It appears that this danger has not been fully realised in certain quarters and I would like to urge that it should receive the attention which it deserves. This is discussed more fully below.

The Second Plan provides for an increase of more than 50 per cent. in development spending as compared with the First Plan and in the eastern wing of the country it calls for a rise of nearly 250 per cent. A substantial portion of the required resources will necessarily have to be raised at home. Needless to say, any savings effort of this magnitude can materialise only in an environment of price stability. As the Plan itself admits, a programme of the magnitude contemplated will place considerable strain on the resources of the country and may give rise to inflationary forces. This danger is present, even if all the assumptions, on which the Plan is based, turn out to be true. If they do not, the danger will be even greater. Along with this, note must also be taken of the claims which fall outside the Plan, particularly non-development outlays, which are not susceptible of reduction in the forseeable future. What is outside the Plan is as vital to the assessment of the monetary situation likely to develop in the coming years as the impact of the Plan itself. It is, therefore, necessary that attention should not remain focussed exclusively on the Plan and on the methods for financing it, but account must also be taken of all the claims which the country's resources will have to satisfy.

Canal Replacement Works

The largest non-development expenditure to be incurred outside the Plan is on the Canal Replacement Works which is estimated at Rs. 450 crores for the next five years. In this context, it must also be kept in mind that the monetary situation, now prevailing, has to serve as the basis on which financial policies for Plan period must be framed. In the economic sphere, bygones may not always be bygones. The present state of monetary imbalance is partly the result of past excesses which may well continue to distort the economy for some time to come. This calls for utmost care to contain the destructive forces, which were set in motion years ago; and to reverse them as soon as possible. If the present monetary situation is characterised by excess liquidity, it means that there already exists a potential threat to financial stability. The fact that, in spite of prudent financial management, money supply has increased lately, should serve as a warning. The increase in money supply has taken place in spite of the Government's efforts to desist from obtaining central bank credit. In fact, the consequences are apparent in the pressures on the price level which has been witnessed during the year. Therefore, it is necessary to ensure that the situation does not deteriorate further.

Our resources being limited, it is necessary that, in addition to sector-wise priorities expressed in general terms, priorities on a project-by-project basis should also be worked out. This is most essential at the present juncture when the development programme embodied in the Second Five-year Plan is under way. The determination of correct priorities becomes all the more necessary when it is realised that the resources, our own as well as those likely to be made available to us, are susceptible to change. This means that an adequate measure of flexibility and manœuvrability in the Plan is essential. The alternative of proceeding indiscriminately on the entire front and making commitments in advance of foreign assistance is a method which Pakistan has generally avoided in the past and it would be best if it is not adopted for the future.

RAILWAYS IN SECOND PLAN

(*Concluded from page 124*)

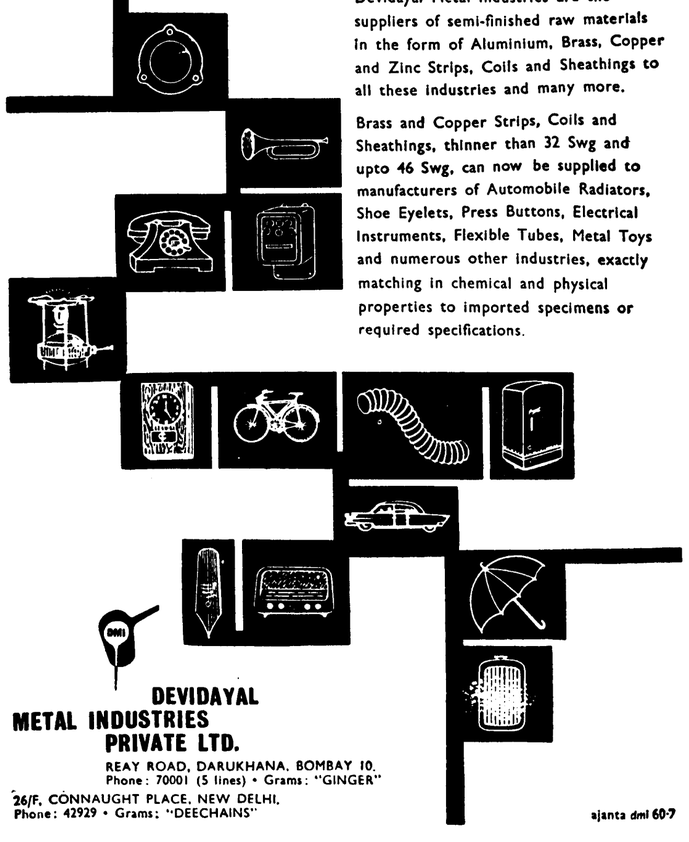
nearly Rs. 500 crores. Of this, Rs. 320 crores were spent on rehabilitating their assets. On the physical side, the achievements so far have been impressive. Of the provision made on additional account, they have procured by 31st of March 1960, 84 per cent. of locomotives, 77 per cent. of wagons and 71 per cent. of coaches. Out of a programme of 1,300 miles of doubling, 640 miles have been opened and 650 miles are under various stages of completion. Of the 800 miles of new lines, 615 miles had already been opened for traffic and balance are in advance stage of completion. The railways have constructed 47,000 additional quarters for the staff and spent nearly Rs. 12 crores on users' amenities. On the whole, the total expenditure by 31st March 1960 was Rs. 855 crores, representing 76 per cent. of the total allotment during the second Plan. During the last year of the Plan, the major targets would by and large be reached.

Taking an overall view of the achievements of the railways during the second Plan, it is the modest claim of the railwaymen that they have carried nearly 42 per cent. of more goods per annum, by the end of the Plan as compared with the freight at the beginning of the Plan. This has been done in spite of many handicaps by way of insufficient availability of steel, comparatively slower manufacture and delivery of indigenous equipment and the need for conserving foreign exchange. During the third Plan, they will be called upon to handle an increase of 46 per cent. in originating traffic and they look forward to this challenge with confidence.

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Provident Fund Schemes For Industrial Workers

History, Progress and Plans for the Future

By S. N. MUBAYI

CENTRAL COMMISSIONER, EMPLOYEES' PROVIDENT FUND

DURING the years immediately preceding the independence of India, the desire for freedom had gained tremendous momentum amongst all sections of the people. Inevitably, this general awakening and upsurge augmented the feelings of dissatisfaction felt by the industrial workers with their unsatisfactory and, in some cases, deplorable working conditions and the pressure for immediate amelioration became irresistible. In the key industry of coal mining, where the workers were eking out a precarious living, with inadequate wages and a complete absence of social security, the unrest was acute. This led the Central Government to appoint a Board of Conciliation in 1946, in order to suggest measures for the creation of a stable and contented labour force in the coalfields. The Board's award was published in May 1947. Among many other recommendations to ameliorate the condition of colliery workers, it included the payment of a month's wages every quarter as bonus, provided the worker had completed the prescribed minimum attendance, and the institution by law of a scheme of a compulsory contributory provident fund.

These recommendations were accepted by the Central Government. The employers' organisations, however, felt that a provident fund scheme for colliery workers was foredoomed to failure as the labour force was extremely casual. But the Government was of the view that, being payable on the worker conforming to a specified minimum attendance in a quarter, the bonus would serve as an inducement for more regular work. Despite the counsels of despair, an ordinance was promulgated in April 1948 to confer powers on the Central Government to frame the detailed statutory scheme of provident fund. The ordinance was later repealed by an Act and the Coal Mines Provident Fund Scheme was notified in December 1948.

Salient Features

The Coal Mines Provident Fund Scheme applies to all coal mines, irrespective of their employment strength, without allowing for any period of infancy. It provides for a subscription of 6¼ per cent. on basic wages by the workers and a matching contribution by the employer. As dearness allowance, the rate of which was 150 per cent. of the basic wages for about 90 per cent. of the workers, had been excluded from this calculation when the scheme was introduced, the contributions of individual workers were pitifully small. The Government, therefore, decided in 1955 that provident fund should be recovered on the total of basic wages, dearness allowance and the value of food concessions; simultaneously, the employers were allowed an increase of three annas per ton in the selling price of coal. Later the recovery was ordered to be based on total emoluments. Thus, the amount of provident fund for most of the workers was more than trebled.

The amount is required to be paid monthly into the fund. The employer is also required to pay an additional levy of 3 per cent. on the total contributions for expenses of administration. The scheme covers all employees in coal mines, barring a few categories of workers engaged in seasonal and domestic jobs. The earning of an initial quarterly attendance bonus is the qualification prescribed for the membership of the fund; this excludes the birds of passage. The other features of this scheme are found in the much larger scheme of the Employees' Provident Fund which will be studied in greater detail presently.

Administrative Difficulties

The Coal Mines Provident Fund Scheme was inaugurated in a virgin field. The objection of the employers was understandable, as the scheme increased their expenses while the selling price of coal was rigidly controlled by the Government; this objection was met by the Government by allowing an adequate increase in the selling price of coal to cover additional expense involved in the provident fund and bonus schemes. Surprisingly, there was resistance from large numbers of workers themselves, on the ground that the scheme involved the deduction of provident fund subscription from their all too meagre wages; they were sceptical of the amount being ever paid back to them and, in any case, it reduced the net take-home wages. As the employers were enjoined by penal clauses to make this deduction, the workers' opposition could not prevent recoveries. The illiteracy of the workers, their covert, if not expressed hostility, which was encouraged by some of the employers, the transient nature of the labour force, the far-flung location of many of the coal mines, the unwillingness of some of the employers to pay up their contribution and to submit returns, etc., were only some of the difficulties in the midst of which this scheme was nursed. Despite these obstacles, the working of the scheme was a success which belied the counsels of the prophets of gloom. The membership of the fund has been steadily rising and has now reached 375,000 workers, employed in about a thousand coal mines all over the country.

How Success Was Achieved

It would be interesting to know how this scheme, beset with difficulties, threatening to give it a stillbirth, became a success. This was achieved by sustained and concerted action. Vigorous publicity was done amongst the workers through various audio-visual means, for example, relay of gramophone talks to large gatherings of colliery workers, display of lantern slides, exhibition of especially prepared documentary film, display of large coloured posters prominently bringing out the benefits of the membership of the provident fund, lectures to colliery workers, distribution of pamphlets, leaflets, picture postcards, etc. Inspecting officials of the organisation invariably spent some time with the workers trying to create in them an interest in the scheme and removing their doubts. The most effective measure, however, was the prompt payment of provident fund to the outgoing members or, in the event of their death, to their heirs. Such payments relieved distress and destitution and the work was always accorded operational priority. They established the confidence of the colliery workers, especially where payments included the whole or a part of the employer's contribution.

While the employers generally carried out their obligations, the tendency of an appreciable number of them not only to withhold their own contribution but also to keep back the amount deducted from the workers' wages was combated by personal approaches and through the employers' organisations. Where these efforts did not succeed and the warnings proved ineffective, legal action both by prosecution and through recovery proceedings was vigorously pursued. The net result was that defaulting employers were eventually impressed that defaults did not pay and workers who had been anxious to avoid membership of the fund, fearing that the provident fund deducted from their wages was some sort of a permanent levy which they would never get back, started complaining to the appropriate authority where, despite their having put in the requisite attendance, the employer had failed to enrol them as members!

The Scheme Extended to Others

The success with the Coal Mines Provident Fund Scheme encouraged the Government of India to start a more or less similar statutory scheme of provident fund for industrial workers in six major industries, namely, cement, cigarettes, electrical, mechanical and general engineering products, iron and steel, paper and textiles. The Employees' Provident Funds Ordinance, promulgated in November 1951, was replaced by an Act in March 1952 and the Employees' Provident Funds Scheme notified in September, 1952.

Application of the Act

(i) *Industries covered*:—Within a few years of the initial application of the Act to the six industries, the Act and the scheme have been extended to thirty-eight additional industries, including newspaper establishments, and several plantation and mining industries (see Annexure 'A').

(ii) *Establishments covered*.—The Act applies to those establishments of the covered industries which employ at least fifty persons (this has just been reduced to twenty—Ed.) and have completed not less than three years' existence. In the case of newspaper establishments, the restriction regarding employment strength has, however, been reduced to twenty. Factories and establishments belonging to Government or a local authority were originally exempted from the operation of the Act, but this discrimination between the public and the private undertakings was removed in 1958 and the Act now applies uniformly to the establishments in the public as well as the private sector.

(iii) *Employees covered*.—All the employees in covered establishments are required to join the fund, with the exception of those whose emoluments exceed Rs. 500 per month and those who are engaged by contractors for work not directly connected with any manufacturing process carried on in the establishments. The workers become eligible on completing one year's continuous service or on completion of 240 days' attendance within a period of twelve months or less. Nearly 28 lakhs of employees out of a total employment strength of 32.5 lakhs in 7,825 establishments now subscribe to the fund. Thus, 85 per cent. of the employees in covered industries are now enjoying the benefits of compulsory contributory provident fund.

Establishments covered under the Act may seek exemption from the operation of the scheme, if they have retirement benefit schemes of their own which, on the whole, are not less favourable to the employees. Subject to the broad supervision of provident fund authorities, such establishments are permitted to run their own provident fund schemes on the following main conditions which are rigidly enforced:

(a) the investment of provident fund shall be made exclusively in Central Government securities;

(b) the fund shall vest in a board of trustees on which the number of employees' representatives shall not be less than that of the employer; and

(c) payment of inspection charges to the Employees' Provident Fund Organisation and giving facilities to its inspectors to make regular inspections, etc.

It will thus be noted that the 'exemption' granted to establishments has well-defined limitations and that the interest of the members is carefully safeguarded. Only 851 establishments stand exempted from the operation of the scheme on the above conditions: in a number of cases, exemptions granted have had to be cancelled, mainly because the investment position was unsatisfactory.

Rate of Contribution and Administrative Charges

The rate of compulsory contribution by employees and employers is 6¼ per cent. of basic wages and dearness allowance including cash value of food concessions, if any. Members may, if they so desire, raise their own contribution to 8⅓ per cent. Every contribution is rounded off to the nearest quarter rupee. The employers have to pay additionally to the fund an administrative charge at the rate of 3 per cent. of the total of members' and employers' contribution towards meeting the cost of administering the Employees' Provident Funds Scheme. Exempted establishments are also subject to inspection by the inspectors of the fund and have to pay an inspection charge at the rate of ¾ per cent. of total contributions. By the end of October 1960, a sum of about Rs. 245 crores had been collected as provident fund contributions while the net accumulations at members' credit, including compound interest, stood at Rs. 184 crores. These figures do not include the coverage under the Coal Mines Provident Fund Scheme and the Assam Tea Plantations Provident Fund Scheme. The latter scheme is administered by the Government of Assam and has about 5 lakhs of members in 500 tea gardens. As the Employees' Provident Funds Act originally applied to factory industries only, the Government of Assam, with the consent of the Central Government, enacted legislation for instituting the scheme for workers in the tea gardens in Assam. This arrangement was not disturbed even when the Employees' Provident Funds Act was amended.

The Employees' Provident Funds Scheme, the Coal Mines Provident Fund Scheme and the Assam Tea Plantations Provident Fund Scheme are measures of social security. They ensure compulsory saving, thereby helping the workers to have a care-free and honourable old age. Along with a high yield in the shape of compound interest, the accumulations enjoy absolute safety and are protected against being charged or assigned and even from attachment by courts. As the funds are recognised under the Indian Income-tax Act, 1922, the higher paid staff get rebate in respect of their provident fund contribution from income-tax. The major attraction, of course, is the additional amount earned by the members as employers' contribution.

Refund

The full amount, including the employer's contribution and interest thereon, is refunded in the event of death, permanent physical or mental disability, superannuation, retrenchment and migration of the subscriber from India for permanent settlement abroad. In view of the difficult nature of work in coal mines, the accepted age of superannuation, entitling a member to full refund is 50 years, as against 55 in the case of the Employees' Provident Fund. In other cases, the members' own contribution, with interest thereon, is refunded, along with the employers' contribution according to the following scale:

Period of membership	*Percentage of employer's contribution and interest thereon refundable*
Less than 3 years	25
3 years or more but less than 5 years	50
5 years or more but less than 10 years	75
10 years or more but less than 15 years	85
15 years or more	100

Accumulations of deceased members are paid to their nominees and, in the absence of a valid nomination, to the surviving members of the deceased subscribers' family or to the legal heirs. So far, a sum of Rs. 58 crores has been disbursed as final payment to or on account of outgoing members of the Employees' Provident Fund or as loans for various purposes.

Additional Benefits

The Employees' Provident Funds Scheme offers the following additional benefits:

(i) advances to finance life insurance policies of members;

(ii) loans to meet expenses in connection with treatment of serious or prolonged illness of the subscribers or of the members of their family;

(iii) non-refundable advances for purchasing a house site or a house or for constructing a house; and

(iv) transfer of accumulations in private provident funds for the period prior to the coverage of the establishment under the Act to the statutory fund to ensure continuity of provident fund membership.

Penal Provisions and Damages

Contraventions of the provisions of the Act and the Scheme are penal. A defaulting employer is liable on conviction to imprisonment upto six months and/or fine upto Rs. 1,000. The unpaid amounts are recoverable as arrears of land revenue. The Employees' Provident Funds Act empowers Government to realise 'damages' from employers who fail to pay the dues of the fund in time. The damages are intended to make good the loss of interest as well as to cover additional expenses arising from belated payment. Moreover, realisation of damages has a salutary effect and curbs the tendency of withholding payments to the Fund.

Administration

The two funds vest in and are administered by two independent tripartite bodies corporate consisting of representatives of employers, workers, and the Central and State Governments. The Coal Mines provident Fund Organisation being a much smaller unit, with no problem about applicability of the Act or exemption from the scheme, etc., has found it convenient to administer the scheme from one central office, located at Dhanbad, in close proximity to the main coal producing area. But the administrative set-up of the Employees' Provident Fund had to be, and is, broad-based, with a central commissioner in charge of the organisation. Some important controlling functions vest in the Central and State Governments. To advise the Central Board on matters of local interest, regional committees, which, too, are tripartite bodies, have been constituted in six important States. The Central Commissioner, who is the Secretary to the Central Board, is the chief executive officer of the Fund and is assigned with control, co-ordination and formulation of plans and policy. Fifteen Regional Provident Fund Commissioners, one in each State, work under the superintendence and control of the Central Commissioner and are responsible for detailed implementation of the Act and the Scheme in their respective States, e.g., maintenance of individual accounts, refunds, prosecutions, recovery proceedings, etc. The inspectors headquartered at outstations have also small offices.

Banking and Investment

The branches of the State Bank of India function as local collection offices of the fund. Employers deposit contributions and other charges payable to the Employees' Provident Fund in those branches which get all the deposits pooled in the linked offices of the respective States for transfer to the head office of the State Bank of India in Bombay every week. This head office, in turn, places the sum at the disposal of the Reserve Bank of India, Bombay, four or five times a month, for investment exclusively in Central Government securities according to the following pattern:

Particulars of Investment	*Amount %*	*Yield % p.a.*
National Plan Savings Certificates	10	4.25
Treasury Savings Deposit Certificates	10	4.00
Other medium-term securities	10	About 3.70
Long-term securities	70	About 4.00

Difficulties in Administration

The realisation of contribution every month from the owners of over 7,800 establishments spread all over the country is by itself a gigantic task. It becomes all the more difficult as defaults in payment by employers do occur. Realisation of past accumulations, that is, accumulations for the period prior to the coverage of the establishments has often presented enormous difficulties, as the amount had been used by the employers in their own business and, in a few cases, all assets had been heavily encumbered. The critical period through which the textile industry had been passing increased the difficulties of the organisation. Some idea can be obtained from the following statistics of legal action:—

Prosecutions launched	1,891 cases.
Recovery proceedings instituted	5,279 cases.

This is despite the policy that legal action is taken only as a last resort, as it causes expense and delay and leaves behind a trail of bitterness.

To add to these problems, there are a few conflicting interpretational decisions of some High Courts making effective implementation more difficult. These relate to application of the Act to composite establishments of which a section only is engaged in an industry covered under the Act; reckoning of employment strength in composite units; position when employment strength is reduced below 50 persons, etc. These difficulties are solved either by an appeal to the Supreme Court or by an amendment of the Act or the scheme.

Plans for the Future

(i) Although there has been a large-scale extension of the Act, the possibility of extending it to other organised industries is always being explored. It is proposed to extend the Act to commercial establishments including banks and insurance companies, before long. A Bill has already been passed by the Lok Sabha to amend the Act so as to reduce the present restriction regarding minimum employment strength of 50 persons to 20 in order to extend the benefits to workers in smaller establishments. (This Bill has been adopted by the Lok Sabha since this article was prepared.—Ed.) It will thus be seen that progress has been taking the extensive as well as the intensive direction.

(ii) The suggestion to increase the rate of contribution from 6¼ per cent. to 8⅓ per cent. has long been mooted and the Government has appointed a technical committee to examine which of the covered industries can bear the additional financial burden arising out of the proposed enhancement of the rate of contribution.

(iii) The recommendations of the Study Group on Social Security for the integration of the existing social security measures, namely, the Employees' Provident Fund, the Coal Mines Provident Fund, the Employees' State Insurance Corporation, the Workmen's Compensation Act and the Assam Tea Plantations Provident Fund and the introduction of a pension scheme are under the Government's consideration.

(iv) Where employers do not remit provident fund, the outgoing members cannot be paid off since the thousands of millions of rupees in the fund ultimately belong to individual members. Inability to pay the provident fund accumulations to outgoing members or their heirs, where the employers have not paid the whole or a part of the provident fund contributions, results in serious hardship. A special reserve fund to help some such cases has been created by an initial transfer of Rs. 20 lakhs from the reserve and forfeiture account; relief will, however, have to be restricted initially to cases of death, permanent disability and superannuation.

Conclusion

The Government's aim is to extend the benefit of compulsory contributory provident fund to as many industrial workers as possible. Full benefit can only be derived after prolonged membership of the fund. There is need for discouraging workers from terminating their membership prematurely and claiming refund of accumulations. The forfeitures referred to earlier, as also a waiting period of six months for payment of provident fund where a worker terminates his service before superannuation have been provided for this purpose. Provision for the future necessarily implies some sacrifice in the present. Trade unionists can also help the workers by advising them against obtaining avoidable loans on grounds of illness. It would be a pity if, after years of gainful employment, the industrial worker faces a bleak old age of dependence and humiliation, or if, in the event of his premature death, his dependents have to beg for mere subsistence. The worker has to be properly educated and to be saved from himself. This again is a sphere where trade unionists can make themselves really useful. While the organisation is still having teething troubles, the rapid extension of the Act to other industries has thrown an enormous

(Continued on next page)

List of industries covered under the Employees' Provident Funds Act, 1952

(*From 1st November* 1952)

1. Cement.
2. Cigarettes.
3. Electrical, mechanical or general engineering products.
4. Iron and steel.
5. Paper.
6. Textiles.

(*From 31st July* 1956)

7. Edible oils and fats.
8. Sugar.
9. Rubber and rubber products.
10. Electricity including generation, transmission and distribution thereof.
11. Tea (except in the State of Assam where the Government of Assam have instituted a separate Provident Fund Scheme for the industry including plantations).
12. Printing, including the process of composing types for printing, printing by letterpress, lithography, photogravure or other similar process or bookbinding, but excluding printing presses, covered under "newspaper establishments" to which the Employees' Provident Funds Act has already been extended under Section 15 of the Working Journalists (Conditions of Service) and Miscellaneous Provisions Act, 1955.
13. Stone-ware pipes.
14. Sanitary wares.
15. Electrical porcelain insulators of high and low tension.
16. Refractories.
17. Tiles.
18. Match factories having a production of over 5 lakhs gross boxes of matches a year.
19. Sheet glass factories, glass shell factories and other glass factories having an installed capacity of over 600 tons per month.

(*From 30th September* 1956)

20. Heavy and fine chemicals, including:—
    (i) Fertilisers.
    (ii) Turpentine.
    (iii) Rosin.
    (iv) Medical and pharmaceutical preparations.
    (v) Toilet preparations
    (vi) Soaps.
    (vii) Inks.
    (viii) Intermediate, dyes, colour lakes and toners.
    (ix) Fatty acids.
    (x) Oxygen, acetylene and carbondioxide gases industry. The Act was actually enforced in this industry with effect from the 31st July 1957.
21. Indigo.
22. Lac including shellac.
23. Non-edible vegetable and animal oils and fats.

(*From 31st December* 1956)

24. Newspaper establishments.

(*From 31st January* 1957)

25. Mineral oil refining industry.

(*From 30th April* 1957)

26. Tea plantations (other than the tea plantations in the State of Assam).
27. Coffee plantations.
28. Rubber plantations.
29. Cardamom plantations.
30. Pepper plantations.

(*From 30th November* 1957)

31. Iron-ore mines.
32. Limestone mines.
33. Manganese mines.
34. Gold mines.
35. Industrial and power alcohol industry.
36. Asbestos cement sheets industry.
37. Coffee curing establishments.

(*From 30th April* 1958)

38. Biscuit making industry including composite units making biscuits and products such as bread, confectionery and milk and milk powder.

(*From 30th April* 1959)

39. Road motor transport establishments.

(*From 31st May* 1960)

40. Mica factories.
41. Mica mines.

(*From 30th June* 1960)

42. Plywood industry.
43. Automobile servicing and repairing industry.

(*From 30th November* 1960)

44. Cane farm owned by a sugar factory.

INDUSTRIAL RELATIONS IN THE PUBLIC SECTOR

A Few Suggestions for Smooth Working

By P. C. JAIN
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THERE is basically no difference in the problem of industrial relations in the private and public sectors. But the recent strikes by the State Bank of India employees, the Flotilla crew at Bombay and by certain categories of Central Government employees have raised some important issues. Why were all-India strikes attempted in services which would have paralysed national life if the effort were successful? Is the existing machinery for the settlement of industrial disputes in India adequate to deal with strikes in the public sector? Should strikes by Government's employees be banned in the broader public interest?

Reasons for Discontentment

The recent wave of strikes in the public sector was not just a chance occurrence. It was the result of wrong Government policies and practices over the past many years. Although the employees had no justification whatsoever to go on strike in these specific cases, the Government was partly responsible for them. In order to prevent such occurrences in the future, a drastic change in Government's labour policy as well as in the promises it makes to the people from time to time is absolutely necessary. The high-sounding talks by political leaders and Ministers of Government about the "welfare State" and the socialist pattern of society raised high hopes in Government employees and workers in the private sector but these hopes could not be fulfilled. What was worse, the Government could not accept in full even the recommendations of the two Pay Commissions, which were expert and impartial bodies and which tried their utmost to keep a fair balance between the interests of all the parties, including the Government. This was the first major cause of frustration which led to strained industrial relations in the public sector.

But, although the Government could not do all it was expected to do for its own employees, it was instrumental in getting the wages, conditions of work and facilities available to workers in the private sector improved very considerably, because the Government's labour policy has been to pamper workers at the cost of employers. The workers in the public sector naturally compared their own miserable lot with the improved condition of workers in the private sector. This was the second cause of frustration. Finally, while the Government could not increase the emoluments of its employees because of the high cost it would involve and the limited finances at its disposal, the Government completely failed in holding the price line. As a result of a much greater increase in the prices of goods than in the incomes of Government employees, their real wages declined and, in most cases, the people concerned were forced to reduce their standard of living, low as it already was, to a still lower level. This was the last straw on the camel's back.

But, in spite of these distressing happenings, the employees of the Central Government and workers in the public sector might not have gone on strike, if the adjudication machinery, so far as industrial disputes in the public sector are concerned, were working properly. It is a recognised principle all over the world that employees of the Government should not be members of trade unions, because that interferes with the performance of their duty. But the Government of India had recognised "service associations" of its employees where the problems confronting them could be discussed round a table between the representatives of employees and the heads of departments. But, due partly to the high and mighty attitude of heads of departments and partly to the indifference of the employees to these "service associations", wherever they existed, they did not work satisfactorily in resolving the difficulties of Government employees. The discontent continued to mount up and unscrupulous people were not slow to take advantage of the strained relations. They manipulated things in such a fashion as to get a strike declared. If the "service associations" had been started in all departments of the Central Government and if these associations had worked in the proper spirit, there need have been no strike.

So far as workers in the industrial establishments in the public sector are concerned, they are governed by the Indian Trade Unions Act and the Industrial Disputes Act and, except for the provision of more rigorous conditions in the case of "public utility" concerns, the existing machinery for the settlement of disputes is available to them. This machinery works all right if a strike is actually threatened or has been declared, but the real thing in the matter of industrial disputes is not so much the settlement of a dispute once it has arisen but the prevention of it.

Scant Respect

The industrial concerns in the public sector are very disorganised so far as this aspect is concerned. In many public sector concerns, no works committees or any conciliation machinery whatsoever exists. The Factories Act and other labour legislation is treated with scant respect in some of the units. The prescribed limit of working hours is not observed, weekly holidays are not granted or overtime paid. The conditions of work are not specified and factory notices are not always displayed. In most cases, the managements of such concerns consider themselves above the law and take a high and mighty attitude. This is in spite of the clear statement by Mr. Gulzarilal Nanda at the last Labour Ministers' Conference that, if the public sector wanted to have some kind of advantage in regard to the application of labour laws, "it would place itself in a totally untenable position." The disregard of labour laws in the Rourkela steel plant recently created a sensation in the Orissa State Assembly. A similar situation arose about workers in the Bhilai steel plant also. But Hindustan Steel Ltd. is not the only concern in the public sector which has disregarded labour laws and has not adhered to the code of industrial discipline. The great danger of this disregard of labour laws is to create conditions for industrial unrest in the public sector. Apart from the fact that the public sector undertakings are expected to be model employers and to set an example to employers in the private sector, a strict adherence to the code of industrial discipline is essential in order to maintain peaceful industrial relations in the public sector.

For the purpose of industrial relations, the employees in the public sector should be divided into three categories: Government employees working in the Secretariat and in other offices dealing with administration, employees in public utility concerns such as the railways, posts and telegraphs, ordnance depots, electricity companies, docks and banks in the public sector, and workers in industrial concerns and similar other enterprises in the public sector such as the fertiliser, cement, iron and steel and other factories and collieries. There is no question of banning strikes in the last category of enterprises as they are on level with similar enterprises in the private sector. If strikes and lockouts are not banned in the private sector, they cannot possibly be banned in similar public enterprises. In a democracy, the employers and employees have the fundamental right to declare a strike and it would make a farce of democracy if this right were withdrawn. There is always a possibility that this fundamental right might be misused by some people, but the remedy against it should be a democratic one, namely, the pressure of public opinion against such misuse of power. If strikes and lockouts are banned in these categories of enterprises, it might remove the danger of dislocation of public life, but it would introduce an undue rigidity in industrial relations and might even affect the productivity of labour. The same considerations apply, to some extent, in the case of the second category of enterprises covering public utility concerns. But, since these concerns are vital for national life, which is likely to be paralysed in case of strike, it would be reasonable to provide in their case that strikes might be banned by an ordinance or by special legislation in a particular case, if the Government feels that the public interest cannot be safeguarded in any other way. But, in this case also, there is no justification for banning strikes for ever.

Clear Case for Ban

It is in the case of the first category of workers—Government employees working in the Secretariat and other offices—that there is a clear case for banning strikes. It is a correct position that on people in Government service "rests the obligation to serve the whole people, whose interests and welfare require orderliness and continuity in the conduct of Government activities. This obligation is paramount. Since their own services have to do with the functioning of the Government, a strike of public employees manifests nothing less than an interest on their part to prevent or obstruct the operations of the Government, until their demands are satisfied. Such action looking towards the paralysis of Government by those who have sworn to support it is unthinkable and intolerable." But, while banning strikes by Government employees belonging to this category, it is essential to safeguard their interests. This purpose would be served by the principle of arbitration in the general settlement of disputes between the Government and its employees and the establishment of joint negotiation machinery which have been accepted by the Government of India, according to the announcement of Mr. Gulzarilal Nanda in his opening address to the 19th session of the Indian Labour Conference in New Delhi in September 1960.

But more important than the adjudication or arbitration of industrial disputes, once they have been declared, is the prevention of industrial disputes by constant negotiation and timely conciliation. In this, the public sector enterprises are very weak. Efforts should, therefore, be made to apply the code of industrial discipline and all the labour laws to industrial enterprises in the public sector more strictly than has so far been done. Moreover, while in the case of private sector enterprises it is always clear as to the person on the employer's side on whom the responsibility has to be fixed for failure to maintain peaceful industrial relations, it is not always easy to fix such responsibility in the case of public sector enterprises. This defect should be removed by specifying the persons on whom rests the responsibility for settling possible disputes by negotiation and conciliation in the case of public sector enterprises. In the case of Government employees falling in the first category outlined earlier, it is not possible to allow membership of trade unions but it should certainly be possible to constitute in each department joint councils for Government employees on the line of the Departmental Whitley Councils in Great Britain. Such councils could easily be formed by readjusting the staff councils, where they already exist, and by constituting new councils where they do not already exist. Such joint councils would improve the relation between Government employees and the Government and would thus lead to improved industrial relations. These joint councils would not in any way modify the Government's power to exercise its authority and the Government's ultimate responsibility to Parliament, but they would improve industrial relations in the public sector.

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burden on it. Nevertheless, the Organisation has achieved a considerable amount of popularity amongst industrial workers and the clamour for further extension of the scheme goes on unabated. Along with rapid extension, it has been trying hard to consolidate its position. It must be appreciated that, in view of these conditions, there may be occasional lapses. While there is still a considerable way to travel, Government is anxious that the Act should be extended to an industry as soon as it is able to bear the additional financial burden. All the interests concerned —the Ministries of the Central Government, the State Governments, the employers' and employees' organisations and the Central Board of Trustees of the Fund—are all fully consulted not only in regard to additional coverage but also about any major amendment of the Act or the scheme. Important as retirement benefit is, sustained employment is of much greater importance to the worker. Subject to that limitation, the Government is anxious to secure this benefit to as many workers as possible and as quickly as possible. It is to be hoped that the co-operation received from the workers and large numbers of employers will continue in the future, as such co-operation is essential for the success of the scheme. It is significant that many enlightened employers to whose concerns the Act did not apply have voluntarily desired coverage under the Act and have been paying the due contributions punctually.

INDUSTRIAL RELATIONS

Its Evolution and Importance

By Dr. J. N. MONGIA
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INDUSTRIAL relations is a subject big enough to require a volume or even several volumes to itself and, hence, its treatment in the compass of a few pages, cannot but be sketchy. The problems of industrial relations are among the basic elements in the economic and social life of any country and, in recent years, they have commanded growing attention not only among industrialists and workpeople but also among governments and the public. There are hardly two opinions about the fact that co-operation between all sections in industry and fair conditions of work are essential for productive efficiency and industrial progress. That the fundamental purpose of industrial relations is to facilitate production by securing harmonious working associations between labour, management and capital needs no repetition. And the main problems being considered these days within the purview of industrial relations are not strikes and lockouts but the regulation of working conditions, and the promotion of better understanding between management and workpeople at the place of work. What must never be ignored is the fact that merely technical efficiency, with up-to-date machinery, layout and organisation, are not enough to make a business profitable. It has come to be recognised on almost all hands that good human relations are at least as important for success.

No Coercion

It is customary to look upon a "business" as a social world in miniature. As such, its members form a hierarchy, each with special qualities of ability, skill and experience with different functions, and with distinctive personalities, temperaments, and loyalties. By competent leadership, these individuals must be formed into a team working together for the prosperity of the undertaking on which they depend for their livelihood. "Attempts at coercion or the use of cajolery will fail to secure the best relations and high standards of efficiency from workpeople. Only by fair and friendly dealing, and above all, by convincing workers that it is in their interest to work well, can good relations and prosperity be gained. If a business succeeds, all will benefit who are associated with it, but, if, because of friction, strains, inefficiency, or any other reason, it fails or just manages to keep alive, all will be losers."[1]

Thus, it seems apparent that the establishment and maintenance of satisfactory relations in industry constitute one of the main social and political tasks in a modern community. The magnitude of the problem can be judged from the fact that an industrial worker ordinarily spends about 8-10 hours in the factory or workshop, for about 10 months in a year and for 35-40 years. This represents a major part of his life and is the part during which he is most active and vigorous. Evidently, if these workers are not to remain discontented and frustrated, it is essential that the working conditions should be healthy, convenient and attractive; that the work itself shall be as interesting as possible and that relations between the workpeople themselves and between workers and management shall be friendly and co-operative.

Matters, however, just do not end here but have far-reaching repercussions, since the effects of factory conditions are not limited to the workers alone but affect the lives of the workers' wives and children. It cannot be disputed that the standard of living that the workers can maintain depends upon the wages they receive. At the same time, factory conditions influence their health which in turn affects their families, inasmuch as irritation and discontent during working hours often lead to strain and tension in the family. Thus, apart from any other consideration, improvements in industrial conditions and relations are of benefit to the great majority of population.

Causes of Labour Problems

When people sell their services and spend their working lives on the premises of the hirer of these services, a varying amount of dissatisfaction, discontent and industrial unrest are likely to occur. Employees are especially interested in higher wages, healthy working conditions, opportunity to advance, satisfying work, some voice in industrial affairs, and protection against loss of wages, overwork, and arbitrary treatment. From these other issues arise such as wages, work accidents, promotion, the settlement of grievances, and labour organisation. Each of these particular problems grows out of the wage system, under which workers support themselves and their families by offering their labour to employers. Though apparently labour problems arise out of the conflicting economic interests of various groups in a competitive economy, the other aspects, namely, the psychological, social and political are also part of the complete picture and have an important bearing on the whole problem of labour relations.

"Labour problems in a capitalist economy," to quote Mr. R. A. Lester, author of *Economics of Labour*, "generally grow out of the conflict of interests between the buyers and sellers of labour. Sellers of labour, like all sellers, want to secure the highest possible price for their wares. They, therefore, are interested in the conditions of work, the attractiveness of the workshop, health conditions, as well as the personality of the boss, the possibilities of advancement and similar matters connected with wage work." Thus, in struggling to improve their standard of living, wage earners find that their interests come in conflict with the interests of the stock-holders, the management, the firm's creditors and other groups.

At the same time, where an article is the joint product of a number of productive forces, how should the money received from the sale of that article be divided? As a matter of fact, there is no formula by which the responsibility for the production of a joint product can be allocated among the different factors of production or among the various grades of labour. In capitalist economies, the division of the product of industry is supposed to be determined by the market. That might be a just way to settle the division of the national income between persons and functional groups, such as workers and bondholders, if all markets always operated perfectly and impartially. But many markets are partially or wholly controlled by monopolies or monopolistic elements. Market prices are frequently fixed by the producer or groups of producers rather than by the free play of demand and supply. In controlled economies such as those of India, prices are fixed by the State. All this has a direct bearing on the conflict between buyers and sellers of labour. Thus, "although the population as a whole may have a common interest in the largest possible national product, the division of that product is a bone of contention especially when the population is so split into definite opposing groups—the buyers of labour on the one side and the sellers of labour on the other."[2]

It is not only economic factors which influence the employer-employee relations, but also psychological factors. The latter go a long way in improving or spoiling these relations. Men, yes, workmen, do not live by bread alone. It should be remembered that a worker's satisfaction with his job is based only partly on his wages, hours of work, or other conditions of employment. It is also based upon the extent to which he enjoys his work and feels that it is worthwhile. Workers need some pride, self-satisfaction and sense of importance and it is very essential that these feelings are not crushed.

Along with economic and psychological factors, social considerations also play an important part. The present-day growth of large-scale business and of corporations has tended to widen the gap between the employer and employees, by increasing the number of sellers of labour, decreasing the number of buyers, and by eliminating, in large part, the former personal relationship between the buyer and his employees. Approaching problems from dissimilar backgrounds and experiences, employing and employed groups often lack any understanding of each other's viewpoint and problems. Thus, wealth alone has been an important factor in segregating the employing from the employed groups.

The Origin

Defining "industrial relations" and tracing its revolution, the *Encyclopædia Britannica* (Vol. 12) says:

"This term (Industrial Relations) is used to denote the relations of all those engaged in the production and distribution of goods and the rendering of services. It involves the method by which the proceeds of these activities are divided between employer and workers or different classes of workers and the settlement of conditions under which work shall be carried on. The adjustment of the position of individuals in relation to those with whom they are associated in work is part of a wider adjustment in relation to the general community, and there is close connection between political and industrial movements. In Great Britain, the rapid development of the factory system during the Industrial Revolution and the concentration of the industrial population in towns, largely destroyed the personal bond between master and man who had worked together in the scattered and rural hand industry units. The rapidity of the change and the domination of employers caused an embitterment of relations which has greatly influenced the labour movement."

In substance, the aforesaid quotation is true not only of Great Britain but of most other countries as well. As a matter of fact, industrial relations are as old as industry and, being inherent in industry, will always remain as a feature of industrial life. In medieval times, though industry was on a small and often domestic scale, relations had to be adjusted both in organising the work and in paying the worker. Only, conditions in earlier times were both different from and simpler than in the industrial communities of today; relations were more direct, in contrast with the complex problems of modern factories employing thousands of workers, many of whom rarely come in personal contact with their employer or with the owners of capital which they use. Also, in earlier times, workmen frequently owned the simple instruments which they needed for their work, whereas an outstanding development of the Industrial Revolution is the use of great factory buildings and costly machines and the concentration of their ownership and control in the hands, not of workers, but of employers or the so-called capitalists.

Today, the trend of industrial relations is determined by the conditions of Industrial Revolution with its capitalist system and specialised labour but there is every indication that, in the years to come, they will change in pattern as the economic system evolves. Even now, the problems of industrial relations are very different in some countries from those in the middle of the nineteenth century, instances of which are many. For example, the autocracy of the employer in dealing with labour has gone, trade unions have full recognition for collective bargaining to regulate working conditions, social security is a twentieth century phenomenon and *laissez-faire* policy has been abandoned in favour of partial Government intervention.

No System Free From Strikes

While thus the pattern of industrial relations has changed a lot in recent times, the problem has always existed, whatever the economic system. One of the favourite and oft-quoted arguments by some has, however, been that it is the capitalist system which is responsible for industrial unrest and that the adoption of socialism would bring an era of industrial peace. But it has been found from more recent experience that, except through effects upon the attitude of management and workers towards one another and towards their work, the problems of industrial relations are very similar whether industrial capital is privately or publicly owned. It is difficult to say what these effects would be, but it is evident that, in a public sector undertaking, profits would not go to private capitalists but to the State. Again, an increase in bureaucratic control might result in a decline in efficiency when the stimulus of competition is withdrawn and, therefore, a decline in profit also. Thus, new problems would be created. We have no intention, however, to make a case, here, for or against public enterprise but what must be emphasised, at this stage, is the fact that, though some problems of industrial relations might be solved by socialism, most of them are common to both systems and are inherent in the organisation of production. That the problems of industrial relations are not automatically solved by nationalisation is shown by the fact that nationalised and other publicly-owned industries have experienced industrial unrest and have suffered from strikes. Strikes are not unknown even in Russia and the recent happenings at the Bhilai steel plant (a public sector enterprise) in India confirm this belief. Thus, these problems, in varying forms, are a permanent feature of human relations irrespective of the economic system.

Modern Approach

The new approach to industrial relations may be said to start with the assumption that human behaviour in industry is influenced by a complex of economic, psychological and social forces. The diversity of these motives and the varying

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[1] Richardson, J. H., *Introduction to Industrial Relations*, page 428.

[2] Lester, R. A., *Economics of Labour*.

degree in which they are felt, often make it difficult to predict man's action in detail. There are, however, certain broad factors that greatly influence the conduct and action. First, there is man's sense of dignity, the conviction that he has basic human rights that others must respect. Second, there is the need for the esteem of others. Men crave recognition—the feeling that their human dignity is respected and a confidence that they will be treated like human beings in all relationships. Thirdly, there is the basic instinct of survival. This requires assurance that a man and his family can obtain the food, clothing, housing and other essentials for a decent standard of living. Fourthly, men desire security. It is not enough to meet their needs of today. They wish to have assurance about their future. Finally, men have their social instinct. They naturally tend to associate with those who share their interests.

It has been customary to regard the industrial organisation as a machine, with each part performing a specific function. This approach may be useful for certain purposes, but it is sadly inadequate in regard to the human problem. It is, however, a happy indication that interest in human relations in industry has greatly increased in recent years. This is shown by the interest taken by Governments in promoting collective negotiation, joint consultation and industrial training. Trade unions, too, increasingly recognise that, in addition to bargaining about the division of the products of industry, they must contribute to greater production by promoting efficiency, providing better training, and resort to joint consultation, if they are to serve the best interests of their members.

Human Values

What is worthy of note in the modern approach to industrial relations is the recognition that labour must not be regarded "merely as a commodity or article of commerce." In the far-off days, when economics was described as a "dismal science," it was usually believed that attempts to improve working conditions by collective action or State intervention were doomed to failure. Indeed, the "iron law of wages" or the "natural law of wages" was dismal, since it was argued by its proponents that, if wages rose above subsistence level, population would grow, until standards of living were forced down again to that level by increases in the supply of labour. In this crude form, the doctrine ignored the possibility that rising standards of living, better education and wider interests would lead to greater efficiency of workers and to a diminution of excessive birth rates. Its authors could not foresee those dynamic factors which, in recent generations, have resulted in great increases in the productivity of industry.

Much water has flowed under the bridges since then. In many of the industrially advanced countries, wages have more or less ceased to occupy an important place in the thinking of the worker. The trade unions have, with success, taken the major responsibility for securing higher wages to workers. This fact has led to increasing emphasis on indirect incentives; better personnel policy, a more attractive working environment, increased welfare and recreational facilities. But an important field still capable of improvement pertains to human environment. Ways and means have yet to be found for increasing the worker's opportunity for creative expression. This, however, is likely to be a difficult task, since much of the work in a modern factory is monotonous by nature.

Good "human relations"—a term which has gained much currency in all spheres of political, industrial and social studies, in recent times, though this concept is not entirely a new one—which are necessary to bring about good industrial relations, imply mutual respect, mutual confidence and fair and mutual capacity for understanding between the employer and the employee. It is the duty and responsibility of the management (1) to discover any friction that exists within the industry, (2) to take necessary action to reduce and, if possible, remove it; and (3) to strengthen the common bonds by encouraging the worker to take diligent interest in the problems of management.

Mental Attitude

Many factors exert influence on the productive efficiency of an individual. The well-known "Hawthorne" experiment in the U.S.A. revealed that, besides physical working conditions, namely, lighting, heating, ventilation, hours of work, muscular and mental fatigue, etc., the mental attitude of the worker has always to be taken into consideration. His relations with his fellow workers, with his supervisors and his attitude towards his work may exert a significant influence on his output. A branch of knowledge recently recognised as "industrial psychology" (or Occupational Psychology) has now sprung up to deal with various human problems under industrial conditions, apart from its very wide scope covering examination, investigation, and formulation of various principles governing the mind of the working force. This "science of industrial psychology" may be defined as "the study of conduct of men and women in their capacity as wage-earners. It aims at describing and explaining all those activities by means of which a person adjusts himself to his economic environment; hence it must take into account the fundamental elements of man's constitution, his innate tendencies and their expression in thought, feeling and action both on the conscious and unconscious level, as well as his acquired aptitudes."[1] This science of industrial psychology has been of immense help in tackling quite a few problems. Important though the material environment undoubtedly is, no workers can do their best unless the general mental environment is right. Not even the very best material conditions will mechanically result in good work, whereas sometimes even poor material conditions can be nullified by good mental conditions. Thus, in recent times, modern behaviouristic Psychology has been invoked to satisfy certain basic desires of workers. These desires may perhaps be roughly classified as the desire for justice, the desire for status and the desire for opportunity. The first, namely, "justice," is the elemental desire for fairplay; "status" is the desire of the workman for some recognition of his dignity as a participant in industrial activities, and "opportunity" is the desire of a certain proportion of the employees to forge head. As a step in the effort to satisfy the desire for justice might be included the pension systems and provision for health and group life insurance which have been set up particularly by the larger companies. At times, these are established on a basis under which the employees contribute to the fund and at times on a non-contributory basis. To satisfy the desire for status, the technique that has been developed is that of works councils and employee representation, employee stock ownership and similar plans.

[1] *Encyclopaedia Britannica*, Vol. 12.

Employee representation is probably one of the most interesting aspects of the new personnel policy. Feeling the need for providing some form of group expression to workers, executives have introduced employee representation, having no connection with trade unions as such but in a way as a substitute for unionism.

In some plans, the function of employees' representatives is purely advisory. No vote may be taken and the advice is not necessarily followed, but the employees realise that at least their viewpoint has not been entirely ignored. At the same time, there are also types in which preliminary legislative power is given to the employees' committees on matters of employee interest; this may be subject to the veto of the management or may provide for outside arbitration of issues.

Satisfying Workers' Desire

The method of satisfying a worker's desire for "opportunity" is to recognise that what an energetic workman particularly desires is a successful career. In order to satisfy this desire, elaborate systems for detecting, training and promoting workers have been established in many countries. Much effort has been made to evolve systems of training and methods of making promotion available to able employees. This new attitude of employers to their labour problems as a part of good management has served as a challenge to trade unionism. This is particularly true of the employee representation movement, where there have been some interesting attempts on the part of the union to join with management in "union-management co-operation." There have been other examples of what may be called industry-wide co-operation between unions and employers in various countries. It must be confessed, however, that the greatest progress in industrial relations has been made in the better adjustment that has been worked out, as a part of good management, in the individual plant by abolishing differences in the treatment of the rank and file of workers and other members of the organisation.

These days, while framing a human relations policy in the fullest and widest meaning of the term, due recognition of the individual man as a human being has come to prevail in advanced countries. Along with this has come the recognition that just as labour is not a commodity so also a human being is not a tool or machine. His dignity has to be safeguarded and provision made for his fundamental human needs. These are imperative human considerations which cannot be disregarded with impunity. Thus, the latest approach is to regard the undertaking not only as a profit-making unit, but also as a social unit which, in addition to its duties towards the community, has a liability towards its workers. An undertaking is intended to be the servant of humanity and should never make humanity its slave.

Industry Is For Man

For many years, men have been forced to submit to the hard necessities imposed by industrial life, with its consequent repercussions upon the structure of the society. The present century has, however, witnessed a sustained effort at social reconstruction and there are many who now believe that the problem is no longer one of adapting man to industry, but rather one of adapting industry to man. "It is not, of course, suggested that unrest can ever be wholly obviated—quarrels will arise in happiest and most stable marriage of labour and management—but, if a sense of common purpose (based on sentiments ranging from national loyality to craft pride) can be achieved, and reinforced by a social policy of "fair share," then the class solidarity which is the unifying force of industrial discontent can be, to some extent, broken down."[2]

As already pointed out, good industrial relations mean co-operative industrial relations. As against this, in many countries, doctrinaire ideas of the class struggle have for many years unnecessarily disturbed industrial relations and have led many workpeople to worship false gods. "Support is given to the teachings of Marx on the exploitation of labour, the inevitability of conflict and the overthrow of capitalism; yet his labour theory of value and his forecast of historical evolution predicting the decline and fall of capitalism have no foundation."[3]

It has been very aptly pointed out that industry is, indeed, a joint enterprise and, as long ago as 1831, it was pointed out in *Capital and Labour*, that "Capital and labour are destined to journey together to the end of time." This is undoubtedly true and it is to their mutual advantage that they should travel amicably together. Capital and management without labour would be sterile, and labour without capital and management would be disorganised, ill-equipped, and ineffective. Each needs the other and those who preach class-war are either fools or knaves or are ignorant of the factors which provide prosperity, welfare, and better standards of living.

No Two Sides

The excessive stress on conflicting interests has led to a strange, rather pitiable situation, as witness the organisation of workers and employers into separate camps from where a regular "feat" of trial and strength is exercised. Fortunately, however, there are some people on both the "sides" who have started feeling that the "two sides" attitude should yield place to more attention being given to matters of interest common to workers and management. This implies abandonment of doctrines of class conflict which only serve to divert attention from the main issues. Employers cannot be expected to welcome joint consultation at any level, if they are convinced that the purpose of labour is to displace them. Nor can industrial relations be cordial and constructive, if workers believe that employers desire to keep standards of living low and wish for depressions so as to reduce their wages and bring them again into a state of subservience. Yet, those workers who take advantage of prosperity to do less than a fair day's work have only themselves to blame, if employers retaliate when the opportunity comes. Unfortunately the guilty alone do not suffer and do harm to the delicate fabric of mutual confidence and understanding. Trade unions could render valuable service by taking measures against that minority of workers who thus poison industrial relations.

[2] Quoted in the "Industrial Relations." Supplement to the *Indian Journal of Commerce*, 1959.

[3] Richardson, *Introduction to Industrial Relations*.

TRADE UNIONISM IN INDIA

PHENOMENAL GROWTH IN NUMBER OF UNIONS

By Dr. J. L. RASTOGI

TRADE unions are an integral part of the present industrial system. They have established themselves in the modern society in such a way that industrial relations today are regarded as relations between the management and the unions rather than between the former and the individual workers.

The growth of trade unionism in India began much later than in Western countries. Until World War I, the so-called unions were largely associations of humanitarians and philanthropists to aid and assist the exploited. Low wages and high profits during the war, educated leadership, the Russian Revolution and formation of the I.L.O. increased the solidarity of workers and stimulated unionism in the post-war years. But the real beginning was made only after the Indian Trade Unions Act was passed in 1926. The movement, however, could not secure a stable footing till the commencement of World War II, due to rift in leadership and unhelpful attitude of employers.

The role of trade unions as a responsible agency was recognised by the Government of India during the Second World War. In order to secure the unreserved co-operation of all the groups in industry, a new experiment at the national level was conducted in 1942 by establishing (*a*) a plenary conference, later known as Indian Labour Conference, and (*b*) a Standing Labour Committee. These bodies also included the representatives of workers' organisations, together with those of the Central, Provincial and Indian States' Governments and of employers. But, as industrial relations during the war were controlled by the Defence of India Rules and the entire energies of labour and management were directed towards war efforts, the former was not enthusiastic enough to combine. The vigorous fight for Independence put up by the Congress Party was another reason, as several trade union leaders were either underground or in jail.

Growth

The post-war years witnessed an unprecedented rapid growth of unionism throughout the country. The following figures speak for themselves:

Year	No. of unions registered	No. of unions submitting returns	Membership of unions submitting returns	Membership per union submitting returns
1947-48..	2,666	1,628	16,62,020	1,021
1949-50..	3,783	2,126	19,76,750	929
1950-51..	3,987	2,227	18,74,860	842
1951-52..	4,623	2,556	19,96,311	781
1952-53..	4,900	2,718	20,90,007	769
1953-54..	6,034	3,800	21,13,004	641
1954-55..	6,649	3,113	21,70,450	697
1955-56..	8,095	4,006	22,74,732	568
1956-57..	8,553	4,394	23,76,762	541
1957-58..	10,045	5,520	30,15,052	546

Source: *Indian Labour Gazettes* and *Indian Labour Year Book*.

Immediately after the close of hostilities, more and more workers began to form and join unions in order to secure a fair deal from employers. The pace was further accelerated by the enactment of the Industrial Disputes Act, 1947, which emphasised the necessity of workers' unions for the formation of works committees and conciliation boards for avoiding disputes and for an early and satisfactory disposal of disputes when they occur. Since then, the number of unions and their membership have registered a continuously rising trend. However, the average membership of trade unions has, more or less, continuously gone down. This is due partly to the fact that, with the success of unions in protecting the rights of labour, the movement is spreading in less important industrial areas and smaller units and partly to multiplication of unions. Cases are not uncommon in which more than one union has been organised in one establishment.

Although trade unionism in India has come to stay, their position is far from satisfactory. Most of the unions in India have embraced only a limited range of functions. Ordinarily, they represent workers' grievances to the management and protect them by advising in legal proceedings or organising mass action. Barring a few, they are still little more than strike committees which gain strength during industrial disputes. As soon as the disputes are resolved, they are left with little work and offer no inducement to retain membership.

Unions in India have failed to promote all-round development of their members. They do not undertake any responsibility for the conduct and discipline of the members in their day-to-day relations with the management. Nothing has so far been done to encourage self-help and co-operative spirit among workers. Instead of developing helpful and friendly attitude, they generally inspire disloyalty, strife and non-co-operation. Unions which serve as an agency of communication between the management and the workers, as a clearing house for workers' grievances and as an organisation for negotiations with the management, are very few. Thus, the development of trade unions in India has not been on right lines and they stand as a contrast to the unions in other industrial countries, where the benefits and services rendered by them are enough to attract and retain adequate membership.

Political Subservience

The maladjustments in the development of trade unions and their functions in India have been due to the manner in which they grew. Since the very inception of unionism in India, it has been so inseparably mixed with the political awakening in the country that the history of unionism has been the story of the political movement itself. Instead of it being developed through the evolutionary process, the whole of it has been engineered by outsiders, mostly politicians. No doubt association of politicians helped in consolidating and unifying the ignorant and the unconscious mass of industrial labour, but it did not fail to exploit the latter for its personal benefits.

It is deplorable that, even long after the attainment of freedom, a change for the better has not come. All the bigger political parties of the country have their own labour wings to put forward the cause of labour before the legislature and the public and to ameliorate the conditions of labour according to their own broad objectives. Thus, the A.I.C.C. has its I.N.T.U.C., the communists A.I.T.U.C. and the P.S.P. Hind Mazdoor Sabha. Most of the unions are affiliated to one or other of these central organisations according to the aims, ideals and allegiance of their leaders.

Whatever might have been the justification and circumstances leading to political subservience of trade unions in India, its continuance is not desirable in the wider interests of the labour movement and is not conducive to happy industrial relations. Association of politicians undermines the purpose of the unions and weakens their impartiality and authority, since more weight is generally attached to political rather than socio-economic considerations. Much of the union rivalry and lopsided development of unions can directly be attributed to their political affiliation and loyalty to the union leaderhip.

Changing Concepts and New Responsibilities

With the acceptance of welfare economy and socialistic pattern of society as the ultimate objectives for the country, the concepts of labour, industry and industrial relations have undergone a radical change. Industry today is no longer a venture of the employing class alone. It is a co-operative venture and all the agents contribute in their own way towards its success. Labour, today, is recognised not as a mere cog but as a co-partner, equally responsible for achieving the economical and efficient production. In fact, the well-being and aspirations of labour are closely linked to the success and prosperity of the industry. Even the idea of conflicting interest in industrial relations has been replaced by a spirit of community of interest and co-operative responsibilities. Thus, under the changed industrial and social climate, trade unions have to be given added responsibilities. In order to achieve the national aspirations, they must change their outdated outlook of strife, non-co-operation and hostility. They should now act as responsible and constructive organs of the society. No doubt, the protection of workers' interest and their welfare are their sacred trusts, but these are subservient to the interests of the nation and consumers. They are also the custodians of these interests in the same manner as any other group of the society. The immediate objectives of trade unions should, therefore, be framed within the broader framework of the interests of the nation and the industry as a whole.

Prominent among the important reasons for the slow growth of trade unionism in India have been illiteracy and ignorance of the working masses and their fatalistic attitude. Most of the workers are ignorant of the principles, techniques and benefits of union membership. Even those who are members of unions take very little interest in their organisation and working. In fact, proper workers' education is a prerequisite for a strong and self-reliant trade union movement. Systematic education and publicity to the aims, functions and benefits of trade unions will make workers conscious of their strength, rights and responsibilities, as well as help remove undesirable fear and traits in them. They will engender active interest and confidence among members in union work and offer them an opportunity to express themselves. They will also enable them to get training in the working of democratic institutions and use of constitutional remedies.

Unions have a vital role to play in shaping the future course of industrial relations towards constructive and co-operative channels. Workers, today, deal with the management not as individuals but as members of the whole group of which their unions are the most important spokesmen. Their attitude towards their work, workshop and the management is largely conditioned by the attitude of their unions towards them. Unions must, therefore, act like true guardians of the workers' interest. But they should also realise that the larger interests of the industry and the nation have to be respected and served. They should, therefore, curb the fatalistic, pessimistic and destructive outlook in workers, create in them a sense of confidence and responsibility and help them to serve themselves and the community.

One of the most important reasons for strained industrial relations is the distant relationship between the top management and the rank and file. Workers, today, deal with a large hierarchy of managerial personnel including foremen, depart mental heads, etc. Management executives, confined in their ivory towers, have lost all contacts with the actual workers. They are ignorant of the difficulties, requirements and aspirations of their workers. In the interest of harmonious relations and industrial peace and progress, these maladjustments must be corrected without loss of time and a regular and effective means of communication must be established from top to bottom and *vice versa*, in order to keep the management informed about the needs and difficulties of employees, and the workers of the changes in the firm's policies and employers' viewpoint on the various aspects of industry. A representative and responsible union in each concern can serve this purpose most effectively. On the one hand, communication of managerial decisions and viewpoints to a representative union would amount to their communication to all the individual members. On the other, the unions would be the most powerful agency to represent workers' viewpoint to the management.

Collective Bargaining

Trade unions can endeavour for sound industrial relations by trying to remove much of the misunderstandings in day-to-day dealings. Being also the trustees of the interests of the industry and the national economy, they should take upon themselves the responsibility for the conduct and discipline of members. Managerial grievances and complaints against workers, their work and behaviour should, at the first instance, be referred to the unions of which they are the members. At the same time, no workers' grievance or complaint should be directly represented to the management. Before any such grievance is taken up with the management or their representatives, it should be closely scrutinised by the union concerned.

Collective bargaining is an accepted function of unionism today. Labour has come of age and it cannot accept the arbitrary decisions and discretionary dictates of the management. No doubt the Industrial Employment (Standing Order) Act, 1946 and the Factories Act, 1948 regulate the service and working conditions, respectively, in industry, but these have been defined only in general words, leaving it to each

enterprise to adopt these according to its own needs and convenience. Collective bargaining is a process by which employers' and workers' representatives negotiate the settlement of various conflicting matters, and, in almost every advanced industrial country, service and working conditions, as also day-to-day relations in industry, are largely regulated by it. In India however, neither the majority of management nor the majority of workers have recognised the importance of collective bargaining to harmonising their mutual relations. The attitude of employers towards unions is generally hostile and vindictive, while workers' ignorance and their weak organisations leave in them little enthusiasm to bargain collectively. The net result of such an atmosphere has been that, in providing service and working conditions the letter of the law and not its spirit has been followed—leading to hostility, distruct, and non-co-operation. In order to prevent waste and ensure maximum utilisation of resources both employers and unions should awaken to the needs of the times and arrive at a mutual settlement of conflicting matters within the prescribed standards.

Collaboration With Management

Besides, the unions should collaborate with the management more effectively to augment the objectives of the industry, as the interests and welfare of their members are directly linked with the success of industry. Effective participation of labour in management is possible only when trade unionism is fully developed and workers are conscious not only of their rights and privileges but also of their duties and responsibilities and have developed a sense of confidence in themselves, a spirit of loyalty to their employers and regard for the rest of the society. Trade unions should, therefore, adopt a responsible attitude and try to divert the energies of their members to more constructive channels.

Rationalisation and Modernisation

Unions should adopt a realistic and progressive outlook with regard to rationalisation and modernisation and appreciate their need in Indian industries with a view to increasing productivity, improving the quality of manufactured goods, and reducing cost. These should not be regarded as a means of exploitation of labour. Rationalisation is scientific planning which attempts at raising human activities with a view to replacing routine and empirical policies by scientific methods. It includes scientific organisation of labour, scientific management and technological improvement. Thus, rationalisation comprehends planning of production and work, time and motion studies, quality control, improvement in layout and conditions of work and scientific selection and training of workers. Modernisation of equipment is an important adjunct of any rationalisation programme. Besides, it calls for an improvement in other aspects of economy like management, finance, transport and marketing.

A genuine rationalisation and modernisation programme is never adverse to the interests of labour. Instead, it results in less strain, more leisure, greater productivity and higher earnings for workers. Trade unions should not only support genuine rationalisation schemes, but should even ask for these where they are not being taken up by unenlightened managements. They should also assist the management in the formulation and execution of such plans in a way that:

(*a*) they entail minimum displacement of labour;

(*b*) work-load per-operative is not increased, if not decreased; and

(*c*) gains due to rationalisation and modernisation are equitably shared by all the participants in production as well as consumers.

Union Recognition

Trade unions, in view of their growing importance as responsible agencies of workers, should be accorded a honourable place in society and in industry. The representative union in each concern should immediately be voluntarily recognised as the sole negotiating agent and as an effective and responsible channel of communication to or from workers. Where there is only one union in an establishment, the question of recognition is a simple one. But difficulties sometimes arise where more than one union claims to be recognised by the employer. In such a case, a union having the largest following should be recognised. As it enjoys the greatest confidence of workers, members will extend their unreserved co-operation to make the venture a success. Allegiance to the code for discipline in industry should be a pre-condition for recognition of any union. Recognition granted to a union should be unreserved and any agreement arrived at between the management and such a union should be binding on all the workers whether members or not for a certain period of time.

In order to be of utmost benefit to the working class, industry and the nation, trade unions must be above politics. The need of the hour is consolidation of the trade union movement and the end of union rivalries is a prerequisite for this purpose. In fact, there should be only one union in each enterprise, irrespective of the political ideology or affiliation of the leaders. Although, in May 1958, representatives of all the four central labour organisations, namely, I.N.T.U.C., A.I.T.U.C., H.M.S. and U.T.U.C., resolved and agreed to abide by an Inter-union code of conduct for harmonising relations among themselves, there is still much to be done in this direction.

No doubt, in the interest of sound union development, the actual leadership should vest in actual workers, but retention of outsiders is essential until the former are assured of immunity against exploitation and victimisation for their union activities. Association of outsiders is all the more needed from another point of view. Labour-management relations have become so complex and technical that association of some experts is needed to meet the employers on equal footing.

In order, however, to prevent outsiders from abusing their authority, their number on the executive of any union should not exceed one-fourth of the total members, subject to a maximum of three. Moreover, no one should be allowed to hold office in more than three unions. In order to make unions more effective, full-time services of technical experts should be acquired by the Federations and utilised to aid and advise their affiliates on various aspects of union organisation and labour-management relations.

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PHENOMENAL GROWTH OF PAPER INDUSTRY

Future Depends On The Solution Of Capital Goods Problem

By CHIMANLAL P. SHAH

THE origin of the modern Indian paper industry is traced back to the pioneering efforts of the great Christian missionary, Dr. Carrey, in the latter half of the eighteenth century. During the hundred years that followed, there were many ups and downs in the fortune of this infant industry, but still one cannot say that a firm foundation for the industry was laid in that period. In fact, the real beginning of the industry cannot be placed earlier than the last quarter of the nineteenth century. The celebrated Titaghur Paper Mills was started in 1882; Bengal Paper Mills followed in 1889. It must, however, be remembered that the plants of these mills were much smaller and more primitive than those of the mills which are now coming up. Pioneering efforts never lose their significance just because of the smallness or drawbacks of their ventures.

Inter-war Period

The First World War gave a good fillip to the infant industry, but the post-war depression which was further accentuated by acute foreign competition hit the industry very hard and, as a result, the industry had to seek protection from the Government. In 1924, the question was referred to the former Tariff Board and, under the Bamboo Paper Industry (Protection) Act of 1925, a duty of one anna per pound was imposed on imported paper. The beneficial effects of this protection were soon felt. Not only was the position of the existing units strengthened but the improved prospects encouraged the establishment of a number of new mills.

The following decade saw the rise of the Punjab Paper Mills (1925), which was later taken over by the Shree Gopal Paper Mills, Star Paper Mills (1936) and Orient Paper Mills (1936). At the beginning of the Second World War, production of indigenous paper stood at 59,000 tons, a very small quantify judged by the present standards no doubt, though in those days it was rated as a first-rate achievement. Then came the Second World War followed by the abrupt cutting off of imports of foreign paper and the consequent shortage of paper which gave a tremendous impetus to the industry. This golden opportunity was fully seized by the domestic industry and production almost doubled during the six years of war:

Year	*Production* Tons
1938-39	59,200
1940-41	87,600
1942-43	91,500
1944-45	100,000

The overworking of equipment and machinery during the war years and the obvious difficulties of getting the requisite spares and accessories for renovation and replacement, combined with the generally unsettled political and economic conditions, considerably slowed down the progress of the industry. By 1950-51, there were 17 units in the industry producing 114.036 tons, a rise of only 14 per cent. over the previous five-year period. This was the position when our national Government launched the first Five-year Plan in 1951.

Beginning of a New Era

The beginning of the first Plan also marked the beginning of a new era of sustained and rapid development of the paper industry. Encouraged by the Government as well as by the rapidly expanding demand for paper, the industry made rapid advance as evidenced by the following figures:

Year	*Production* Tons
1951-52	135,091
1952-53	136,836
1953-54	137,301
1954-55	169,090
1955-56	200,000

Thus, within the Plan period, the production increased by almost 50 per cent. It may be incidentally noted that the paper industry was one of the few industries which completely fulfilled the targets laid down for them by the Planning Commission. As against the creditable record of paper and boards, newsprint sadly lagged behind the target. Target for newsprint was modestly placed at 27.000 tons, while the actual production attained was hardly 4,200 tons. The first Plan period also saw the beginning of the massive investments in this highly capital-intensive industry. As against an investment of Rs. 8 crores envisaged by the Planning Commission, the actual investment was of the order of Rs. 11 crores. The rate of investment had been sustained throughout the later period. This is the secret of the remarkable vigour which this industry has manifested during the last decade.

Second Plan Targets

The targets laid down by the Planning Commission for the industry during the second Plan period were as under:

	1955-56		1960-61	
	Annual rated capacity Tons	Production (Estimated) Tons	Annual rated capacity Tons	Production (Estimated) Tons
Paper and paper-board	210,000	200,000	450,000	350,000
Newsprint	30,000	4,200	60,000	60,000
Strawboard and other boards (excluding fibre-board)	59,300	32,000	59,300	35,000 to 40,000

In spite of the severe handicaps imposed on the expansion of the production capacity of the industry by the foreign exchange crisis which dominated the period, the industry has made a fairly satisfactory progress during this period, as is shown by the following figures of production:

Year	*Production* Tons
1955	184,884
1956	193,400
1957	209,957
1958	251,356
1959	327,040
1960 (estimated)	350,000

It may be noted that, during the last decade, the production of paper has more than doubled, from 135.000 tons in 1951-52 to 350,000 tons in 1960-61. Surely, the paper industry can boast of a magnificent record of growth. The seasonally adjusted general index of industrial production stood at 161.1 in July 1960 (Base: 1951=100). The index for paper and paper-boards, on the other hand, has risen very much faster than the general average; it stood at 255.0.

While the indigenous production has increased so fast. the overall availability (equal to production plus imports) of paper has not increased proportionately, because, owing to foreign exchange difficulties, the Government has heavily cut down the imports of paper, as will be evident from the following figures:

Year	*Imports* Tons
1955-56	50,000
1956-57	45,000
1957-58	40,000
1958-59	13,000
1959-60	15,000*
1960-61	15,000*

* Estimated by the Planning Commission.

This sharp cut in imports, coupled with the ever-increasing demands of growth in education and fast industrialisation of the country, created serious scarcity of paper in the country, especially of those varieties which were not manufactured. There were loud complaints about shortage of paper all over the country and great anxiety was felt in official as well as non-official circles. Fortunately, during the last year or so, production has been rising very fast, following expansion of old units and commencement of production in new units.

Concentration of Production

An interesting aspect of this rapid growth of the paper industry may be noted here. This industry has grown mainly through expansion of old units, rather than through establishment of new units. In the recent expansion of production, the new units have hardly played any important role. As a result, the bulk of production is steadily concentrated in a few big units. For example, in 1958, out of the 19 units producing 253,000 tons, three largest units alone accounted for about 140,000, that is about three-fifths of the total production. Keenly aware of this concentration of production, the Government, contrary to its earlier policy, has now started actively encouraging the starting of small units in the industry.

Of late, fixation of targets for the third Plan has been actively engaging the attention of the Planning Commission, the Development Wing, and the Development Council for Paper, Pulp and Allied Industries (formerly known as Paper and Pulp Panel).

F.A.O. Experts who were invited by the Development Wing (Timber and Cellulose) for advice about the probable long-term trends in the demand for paper in the country, believed that "(i) growing industrial output (rising at the rate of 10 per cent. per year) will augment the demand for wrapping paper and boards by 5 per cent. per year. (ii) paper consumption, in general, will further expand proportionately with rising population (roughly 1.5 to 2 per cent. a year), and (iii) the increased literacy will account for a 200 per cent. rise in demand for writing and printing papers and a 300 per cent. rise in demand for newsprint over the next two decades."

Keeping this in view and basing itself on the recent Indian experience, the Demand Sub-Committee of Paper and Pulp Panel came to the conclusion that during the third Plan period, the overall demand for paper will increase at a rate somewhere between 12½ per cent. and 15 per cent. per annum. On this basis, it suggested two targets—(i) 720,000 tons (minimal projection) and (ii) 800,000 tons (maximal projection). Later on, the Planning Commission had detailed discussions with the representatives of consumers, traders and paper-makers. Recognising the force of the arguments in support of the above targets, the Commission has been stressing the limitations imposed upon the country by shortage of foreign exchange. In the Draft Outline of the third Plan published recently, the Planning Commission has stated: "Under paper and paperboard, expansion of capacity by about 128 per cent. (from 360,000 tons to 820,000 tons) and under newsprint a fourfold expansion have been proposed in step with the anticipated growth of demand under the third Plan."

Just about the time the targets were discussed came a great damper for industries in the form of the Tariff Commission report on fair ex-works and fair selling prices for paper and paper-boards. In accordance with the recommendations of the Commission, the Government reduced the prices of a number of varieties of paper from 1st January 1960. It was widely feared at that time that the reduction would severely retard the growth of the industry. It was even feared that, with this handicap, the industry might not be able to accumulate or attract sufficient funds to fulfil the targets set for it in the third Plan.

Funds: No Worry

Although the initial reaction of stock exchanges to the reduction of prices was the downward movement in the prices of paper shares, the share values recovered soon and paper scrips are nowadays as popular as any other. A cursory glance at the indices of variable dividend industrial securities (base: 1952-53=100) shows that the index for paper has been generally standing higher than for any other industry. In September, the index stood at 226.5, while the all-industrial index was 173.6. No wonder that all the recent issues of the newly floated units in this industry have been fully or more than fully subscribed. Thus, it seems that, so far as funds are concerned, the industry will not have to worry, at least for some time.

Another remarkable feature of the industry is that, owing to the vigorous drive of the Government, especially of the Union Minister for Industries, Mr. Manubhai Shah, manufacture of machinery for paper industry is being vigorously taken up. The progress of the industry cannot be fast enough without proper attention being paid to the manufacture of capital equipment. The pace of development in this direction is also much faster than what anybody could have visualised say, five years ago. If this development catches momentum, we shall be self-sufficient in supplies of paper-making machinery within a very short period and, once that happens, the future growth of the paper industry will

no longer be dependent on the availability of foreign exchange, as has been the case so far.

In the third Plan Draft Outline, the following targets for paper mill machinery have been laid down:

	Standard size of plant (capacity tons per day)	Target for 1965-66		Indigenous content (%)
		No. of plants	Value of plants excluding electricals (Rs. crores)	
Paper mill machinery :				
(a) Large plant	50	4	6.5 to 7.0	70
(b) Small plant	5/10	4		

Raw Materials

If the problem of indigenous manufacture of machinery for the industry is solved, then the only other—and perhaps much more difficult to solve—problem is to find the requisite raw materials to sustain the continued growth of the industry.

For large-scale expansion scheme as has been contemplated by the Government, the question of availability of raw material becomes a very important factor. The Government seem to have examined this question thoroughly through their experts and, it would appear that, so far, the main raw materials available are bamboo and sabai grass. In the matter of bamboo, it appears that the total resources in the country are 1.8 *million tons per year* on the felling cycle of four years. On the other hand, the consumption of bamboo in the second Plan period is likely to be of the order of 600,000 tons per year. It has, therefore, been decided to rationalise supplies and to earmark areas and specific units. The State Governments have also been requested to give all the necessary facilities for proper exploitation of bamboo resources and on long-term leases with reasonable royalties. Similarly, sabai grass is not available in sufficient quantities and greater efforts should be made to enhance the availability of this raw material considering its many advantages over bamboo.

A search for newer varieties of raw materials has been made by Government experts, and it has been recently established that bagasse can very reasonably solve the very important problem of shortage of raw materials for the large-scale expansion of the paper industry. It is estimated that 3.75 million tons of bagasse can be made available from about 150 sugar factories and *gur* manufacturing units. It is estimated that, if all the bagasse from various sources is harnessed for paper production, we can manufacture two million tons of paper from this source alone.

Large-scale collection has been carried out by countries such as the U.S.A. and Japan for the proper utilisation of other raw materials like old rags, linters, cotton, jute and such other fibres. All this can play a very important supplementary part, especially in the manufacture of superior papers. There is an obvious need for organised collecting agencies for these items on a country-wide basis.

The attitude of some State Governmen's in refusing long-term leases of their bamboo and grass forests at reasonable royalties to the paper industry had been criticised by the industry and it is high time that the Central Government took some concrete steps to meet the very basic needs of the industry. In European countries, every planned unit is more or less provided with its own resources of raw materials, and this is the only manner in which this important industry can thrive to attain a sound economic structure.

These are some of the formidable problems which face the new *entrepreneurs* who are attracted to this industry. It is, however, gratifying to note that all these problems are being vigorously and successfully tackled. As a result, at the end of 1960, the picture of the likely growth of the industry within the next few years appears to be as under:

	Tons
Present licensed capacity ..	400,000
Substantial expansion of existing units	136,880
New major units	225,800
New small units	197,562
Total ..	960,242

This means that, if all these schemes are completed within the next five years, the capacity of the industry may exceed the third Plan target of 820,000 tons. But this achievement should not make us complacent. Our achievement during the first two Plans has been really praiseworthy. Yet, we must remember that, even today after a decade of hard efforts, our *per capita* consumption of paper is the lowest among the major countries of the world. The need for supreme efforts to increase our production of paper can, therefore, be hardly emphasised.

Country	Per capita *paper consumption* Lbs.
India	2.1
Canada	280.0
China	4.0
Denmark	180.0
Great Britain	207.0
Israel	61.0
Japan	83.3
United States	437.8
West Germany	156.0

Newsprint

In the next few paragraphs, we shall summarise the immediate prospects of the development of newsprint industry. At present, due to foreign exchange difficulties, import of newsprint is restricted only to newspapers and, as a result, the third Plan targets estimated on the basis of its use being restricted only to newspapers, are fixed as follows:

Year	Tons
1961-62	100,000
1962-63	110,000
1963-64	120,000
1964-65	135,000
1965-66	150,000

As against this projected trend of demand, plans for setting up four newsprint plants in India are at an advanced stage. Two of the projects submitted by industrialists have been approved. Both these are to be located in Maharashtra State. The two together will have a production capacity of 60,000 tons annually. Quantities of paper pulp will be imported and turned into newsprint. Another proposal still being processed by various Government departments is to install a full-fledged newsprint plant in Uttar Pradesh. The fourth plant may be established in Hyderabad with the assistance of a West German firm. The idea is to utilise bagasse, a by-product of sugar factories at the Nizam Sugar Factory, for newsprint production. The finalisation of this scheme will, however, have to await the results of technical experiments now being conducted in West Germany. Talks about a newsprint plant in the Punjab are also in the air. At present, Nepa Mills in Madhya Pradesh produces 100 tons of newsprint a day. It is proposed to double the capacity of this factory.

Tariff Commission

As a result of the restrictive import policy, complaints about high prices of paper were received by the Government which referred the question of fair prices to the Tariff Commission in September 1958. Most of the recommendations of the Commission were accepted by the Government by their resolution dated 4th December 1959, and paper prices were worked out for 24 common varieties of paper and board, for which the industry was allowed a net profit of 12 per cent. in determining such prices. The recommendations of the Tariff Commission, which brought down the prices considerably, were generally welcomed from the point of view of consumers. Sir Walter Michelmore, Chairman of the Titaghur Paper Mills Company, Ltd., has, however, commented that the severe reduction in prices at the present stage of the industry's development is a retrograde step and a severe blow to companies which follow a conservative policy of ploughing back into reserve funds required to provide for further modernisation and expansion. The Tariff Commission has calculated fair return on capital at 12 per cent., but this figure has to carry managing agents' commission, interest on loans, provision for redemption, taxation, dividends, and reserves for replacement of machinery expansion and other purposes. For an industry which is expected to double its capacity by 1965, this return is completely inadequate in his view. The Chairman of the Indian Paper Makers' Association, Mr. Zutshi, has also criticised this part of the recommendation of the Tariff Commission and has pointed out that, over a period of 10 to 11 years, while the paper industry trebled its production, paper prices were increased by about 16.7 per cent. for the civilian market and by about only 10 per cent. for Government supplies, as against an increase in the cost of production of over 35 per cent. It appears that the Association had submitted a joint memorandum to the Government showing how a return of 25 per cent. on capital employed was the minimum required to meet the aforesaid liabilities on dividends, interest on working capital, reserves, taxation, managing agents' and directors' remuneration, interest on debentures and loans, and bonus to labour. The industry had also submitted to the Tariff Commission its memorandum to prove that the present-day cost of machinery was more than four times the cost in pre-war years; the need for providing funds over and above the normal depreciation accumulations for rehabilitation had been confirmed by the Supreme Court in the course of various judgments on bonus.

Thus, on the whole, one can safely say that the paper industry faces the future with confidence and that prospects of its future development are brighter than ever before.

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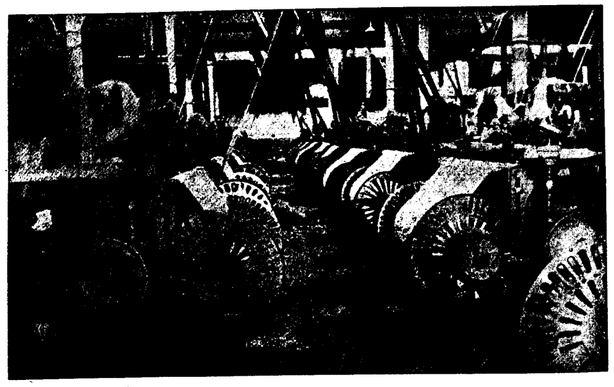
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Is Increased Taxation of Rural Sector Possible?

By Prof. V. G. RAMAKRISHNA, M.A.

THE final report of the third Plan now seems to be on the drafting anvil of the Planning Commission but the Draft Outline already published gives clear indications of the shape of things to come. It is said that a third Plan of the magnitude of more than Rs. 10,000 crores requires total mobilisation of all the internal resources of the country and, in this context, increased taxation of the rural sector is emphasised as crucial to augment the tax resources for the third Plan. While no one will quarrel with this proposition, it is absolutely necessary to be a little realistic about the scope for increasing rural taxation. The task of imposing new taxes or of increasing the rates of existing taxes is the duty of State Governments and no State Government has so far made any realistic quantitative estimate of what additional tax resources are possible from the countryside. Even the expert inquiry of the Matthai Commission on Taxation was halting and inconclusive so far as rural taxation was concerned and made no worthwhile suggestions, except perfunctory remarks like betterment levies and so on. What is required is a real assessment of the amount of increased tax revenue that is possible in the existing conditions of the rural economy.

What are the real facts of the situation at present? First of all, there is a presumption that the rural sector in India has large reserves of unutilised manpower and other reserves and that it is possible to obtain increased resources from these unorganised reserves. The landowners, particularly the bigger ones, have, it is argued, greatly benefited by the increase in agricultural prices and it is necessary to divert such extra purchasing power from consumption to remunerative investment. But the so-called big landowners form a very small percentage in a country of small petty owners of land what little gain has been made by them has been nullified by the inflationary rise in prices. The price level during the past five years have gone up by 33 per cent. The rupee of the present day has gone down in value to 66 nP and it is, therefore, idle to bank too much upon the increased resources of the countryside. As a matter of fact, the bulk of the rural population is on the bare subsistence level and any attempt to increase the tax burden or impose new taxes on them would reduce their already low level of consumption.

Again, it is argued that the major portion of the national income arises from the agricultural sector, that is, more than 50 per cent. of the national income, and the rural sector must, therefore, be tapped. Taxation of the agricultural sector for economic development is, however, nothing new and it has its historical parallel in Japan during the nineteenth century and China and Soviet Russia today. A stiff land tax was imposed in Japan for economic development. Regarding China and Soviet Russia, the less said the better for, in these countries, everything is authoritarian, while, in India, we are going ahead under a democratic pattern. It is said that land revenue at present forms only 8 per cent. of the total revenue and a tax of Rs. 35 per acre on 65 to about 85 million acres of irrigated land and Rs. 15 per acre on 200 million acres of dry land is necessary, in order to carry out the various productive schemes. The following suggestions have also been made:

(1) enhancement of land revenue on all lands over five acres, (2) a tax on agricultural rent, (3) a surcharge on holdings above five acres under commercial crops.

The impracticability of all these new tax proposals is too patent to need scrutiny. It is said that in India rural households with incomes of Rs. 600 to Rs. 1,200 per year pay only 3 per cent. of their income as tax and there is, therefore, a case for increased taxation. But one has to take into account the practical difficulties in the implementation of these proposals so glibly made by doctrinaire politicians. The rise in the cost of cultivation, the spate of tenancy legislation cutting into the landlords' share, the socialist cry that land is for the tiller, the seasonal vagaries of the monsoon which have decimated yields—all deserve to be considered seriously. In a period when agriculture has to be encouraged with good incentives for augmenting production, whether the heavy taxation implied in the aforesaid tax proposal is not likely to stultify the major objective of food production is to be critically examined.

A rosy picture is being painted that the agricultural sector will have to contribute as much as Rs. 2,700 crores during the next five years for financing the third Plan. If the contribution of the rural sector towards national income is in the neighbourhood of 50 per cent. of the national income, it should be noted that the people living in rural areas constitute about 80 per cent. of the population. Further, incomes in rural areas are distinctly lower than in urban areas, the proportion between the average incomes being 3:7 approximately. The agricultural labourer gets about one-tenth of what the labourer in industry obtains.

As regards land revenue, it is very doubtful whether it can be increased to the extent proposed. It is true that the present incidence of land revenue works out to only 1.5 per cent. of the valued farm output. But if land revenue is to be raised to the point of raising about Rs. 570 crores every year during the third Plan period, about 9 to 10 per cent. of the valued farm output will have to be raised by way of land revenue. By all accounts, this seems to be an impracticable proposition at the present time, in view of the serious political factors in the rural situation today. As Mr. C. D. Deshmukh, a former Finance Minister, observed, it may require great political courage on the part of the States to impose a severe restraint on the consumption of 90 per cent. of the population. As a matter of fact, during the last ten years of post-independence era, we have had only five years of relative agricultural prosperity. It is, therefore, unsafe to bank too much upon the so-called agricultural prosperity. Our plans for food production, based on the monsoons, are no plans at all. Before we embark upon taxing the rural community, furthermore, we must increase its taxable capacity. Heavy taxation of the agriculturists at present must be avoided at all costs.

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PEOPLE—TO—BUSINESS

Unique Training Programme in U.S. For Executives Serving Foreign Markets

By OTTO SCHALER

DEPUTY DIRECTOR, B.C.I.U., WASHINGTON

TODAY, United States Industrial and business firms are concentrating more on foreign markets than ever before. Even medium-size companies are looking well beyond their domestic areas. Many have established licensing arrangements and joint ventures which often make these overseas activities as important to them as those at home.

With increasing frequency, export departments are becoming "international divisions" headed by senior company executives. New foreign subsidiaries are spawned day in and day out. Of one and one-half million American citizens living and working outside the U.S.A., there are tens of thousands of American businessmen representing their companies in virtually every country of the world, except in the member-States of the China-Soviet group. These are the managerial and technical specialists which U.S. business furnishes together with capital, production and marketing techniques.

The balance-sheets generally show good prospects if not good results for these business ventures. With markets gaining strength as living standards rise and new facilities starting production, the future looks promising from a business standpoint.

But farseeing business leaders know that the books their accountants keep do not tell the full story of U.S. firms in foreign lands—their relationships with the indigenous population nor the outlook for healthy co-working. They recognise that the people of the host country have attitudes and objectives to which the businessmen as guests in the foreign land must give full consideration to secure the ties and establish bonds beyond economic intertwining for momentary though mutual benefit. "We haven't done an adequate job in selling our American way" is an obsolete approach, being replaced by energetic, purposeful effort of working out adaptations to local standards and values.

At a time when the nations of the free world are rebelling against any form of colonialism, the bungling of businessman, Government official, tourist, or any other representative of the United States on the foreign scene is greatly magnified.

As individual, non-conforming business firms cause friction in their relations with nationals of the community in which they operate, the engendered ill will transfers to the disadvantage of all others—business, Governmental and private—who represent the same country in the area. That is not a situation unique for Americans. Other nationalities have identical problems in this regard.

Visit Programme

However, a growing group of prominent U.S. businessmen with international interests have organised to meet the vital need for American representatives abroad to demonstrate their understanding of, and friendship for, their hosts at every opportunity. These top officers, with wide experience, apply their own skills to translate the need into effective programmes and action. Headed by Charles M. White, Chairman of the Republic Steel Corporation, the Business Council for International Understanding (B.C.I.U.) concentrates on orientation and training. It sponsors a four-week course, the Training Programme for International Business Executives, conducted by The American University in Washington, D.C., which prepares middle and upper level executives and their wives to:

1. Understand the people of the host country.
2. Interpret aspects of the U.S. life and culture.
3. Acquire an elementary knowledge of the country's language.
4. Gain a practical concept of actual business, social and domestic situations that are likely to be encountered abroad.

Eight groups of about 15 executives *plus* their wives have been graduated from this programme to date. A high percentage of those enrolled had had previous foreign experience. Roughly 40 per cent. are not preparing for a specific assignment abroad but have headquarters-based responsibility for some phase of their firm's international operations.

Some companies are enrolling managers of their foreign affiliates—men who frequently are nationals of those countries—to better equip them for higher echelon positions in the future. Foreign firms are invited to enrol English-speaking executives.

Object of the Course

The course content has been designed with the help of experienced business men, distinguished academicians and senior officials and specialists of the Government. All three elements are represented on the Training Programme's faculty. In addition to language instruction, there are lectures on and discussion of:

Contemporary America in global perspective, with emphasis on the U.S. economic system, corporate strength, American capitalism, separation of powers in the U.S. Government, how Congress makes up its mind, the Presidency and big Government, the American party system, Federalism in operation, foreign policy and its instrument, social classes and their mobility.

The arts in America—literature, painting, movies, drama.

American and foreign cultures in comparison of values and attitudes, social relations with foreign people, adjustment to foreign cultures, communications in language and action, patterns of cultural change.

Foreign ideas about American society and culture.

Interpreting America to other people.

Special lectures on labour in American foreign relations, the communist challenge to American business, the role of the military in underdeveloped countries.

It is one of the peculiarities of human nature that makes every visitor from another country a spokesman who—to fulfil this function—must qualify himself for this far-reaching responsibility. The people he meets will expect him to be able to explain whatever they may ask about our way of life. The burden of proof is on the visitor, so it is up to him to learn about his own cultural and artistic heritage and contributions, the history of labour movements, and the evolvement of the U.S. economic system, based on the democratic principles of Government that have brought it world leadership. For proper balance, he should also know a good deal about communism, its development and aims.

To Americans, time is money. But to millions of people—particularly among the Middle East countries and the Orient—it is nothing of the sort. In some countries, what would amount to a 10-minute business transaction possibly even by telephone in America, may require hours of preparatory get-togethers. The B.C.I.U. Training Programme stresses the essential of a sincere interest in becoming part of a new community and the desire to adjust to different circumstances that call for different handling and different methods.

On the other hand, these men are reassured that mistakes committed overseas are readily forgiven by the nationals of the host country if these mistakes are honestly made and honestly corrected. Patience is usually the response to sincere effort.

Specialised Instruction

Each participant selects a geographic area of primary interest to him and receives specialised instruction on:

Origins and colonial backgrounds of the nations of that area.

Winning of independence.

Views of the United States.

Development and current status of relations with the U.S.

International organisations operating in the area.

Current issues and problems in the area.

Modern political and social movements and trends.

Economics and economic development.

Social security programmes.

Technical assistance programmes.

Observations on living and doing business in the area.

Private consultations are arranged with officers of U.S. Government departments and agencies, international organisation, foreign diplomats and businessmen familiar with the area to discuss commercial and political questions.

A special programme for wives only provides training in—

What the U.S. stands for, its system of Government.

Cultural differences around the world.

The American Overseas-Answering questions about the U.S.A.

The importance of wives in U.S. representation abroad.

Telling the U.S. story abroad.

Living abroad: housing, health, children, school, heating, utilities, servants, local services, markets and marketing.

Establishing social contacts: basic matters of protocol, entertaining.

Finding a place for service in a foreign community.

The facts of communism.

Attendance at Congressional Committee hearings, visits to art galleries, pertinent international organisations located in Washington.

The wise wife learns that she should admit her lack of knowledge about the local social graces, and thus she must quickly learn those that will make her fit into the routine of the community.

Language instruction is in the spoken language with usually less than the maximum of four students in the class. Each devotes time to drilling with special tape-recording equipment, comparing his own responses with recorded lessons.

Government-to-Government assistance programmes have repeatedly demonstrated their own built-in limitations. B.C.I.U. members believe that business can perform acts of partnership acceptable in foreign communities on a business basis, without mistrust or assumption of ulterior motives. In view of this belief, it has created a number of projects besides its Training Programme.

Help from the State

In co-operation with the U.S. Department of State, B.C.I.U. has set up a formal visit programme, under which U.S. Foreign Service and U.S. Information Agency officers, going abroad or on home leave, make a series of visits to corporations which operate in the countries of their assignments. These visits permit business and Government to exchange knowledge and know-how and to share each other's specialised experience of foreign countries. It gives each a better insight into the foreign problems and policies of the other.

Top businessmen record interviews and panel discussions with their foreign counterparts on national and international issues for broadcast in Latin American and other foreign countries.

Counterparts

The first foreign counterpart of B.C.I.U. was organised in 1957 in Mexico as the "Asociacion Pro Entendimiento Internacional" (A.P.E.I.) by an equal number of Mexican and North American businessmen. With C.A.R.E., the worldwide, private relief agency, as its partner, A.P.E.I. operates "Clubs Juveniles Rurales" for farm youth. One hundred and fifty clubs have been formed, equipped and are already functioning as planned. They engage in various agricultural projects, exchange information to improve animal husbandry and agricultural production. Good results achieved by participants in these projects are given broad recognition.

A.P.E.I. has introduced the revolutionary, portable "Cinva-Ram." This building block press, invented by a Chilean engineer, is an inexpensive tool for durable construction of low-cost rural housing with native soil and a minimum of cement.

A.P.E.I.'s third major programme is "Empresas Juveniles: which gives youngsters between fifteen and twenty-one the experience of running a business of their own. With the advice of qualified businessmen, teenagers organise a company in every sense of the word to produce a simple but saleable product. Stock is sold to obtain operating funds and acquire capital equipment. Responsibilities for financing,

(*Continued on page* 170)

SALIENT FEATURES OF FOOTWEAR INDUSTRY

Phenomenal Progress in Large-scale Production

By J. VYORAL
MANAGING DIRECTOR, BATA SHOE CO. PRIVATE LTD., CALCUTTA

THE remarkable success and rapid progress achieved in recent years in the manufacture of footwear on a mass scale in this country constitute a highly distinctive feature of the footwear industry in India. Undertaken in earnest for the first time barely thirty years ago, the large-scale manufacture of footwear by modern methods and with modern equipment in up-to-date plants has made spectacular advances in the face of many handicaps and difficulties and has succeeded, within this comparatively short period, in developing into one of the most progressive and best organised of India's national industries. The importance of the contribution which this branch of the footwear industry now makes to the economy of the country cannot be overemphasised.

Early History

Before the beginning of the present century, shoemaking in this country was confined to individual and small groups of local *chamars* and *mochies* in towns and villages who plied a much neglected craft of making traditional types of footwear with simple and crude implements under primitive conditions.

Except for the solitary factory established in Kanpur in 1881 by Messrs. Cooper Allen for the production of military boots for the Indian Army, shoemaking in India was then nowhere carried on as an industry on an organised basis. For Western-style footwear, the country had to depend almost entirely on import from Europe.

It was during World War I, when all imports of footwear from abroad suddenly ceased, that the need for the development of a footwear industry on organised lines and the establishment of modern footwear factories in India was keenly felt for the first time. As a consequence, after the termination of the war, quite a number of small leather shoemaking establishments were set up in the country, marking the first attempt to build up a shoemaking industry in India on organised lines. This attempt, however, did not meet with much success, as the economic depression of the post-war years and the renewed imports of leather as well as rubber and textile shoes from Europe and Japan forced most of these concerns to close down after a time. Only a few were able to carry on under extremely difficult conditions.

Real Foundation

The real foundation for an organised footwear industry was laid as late as 1932, when that great genius of the shoemaking industry in Europe, the late Thomas Bata, came to India and set up his first modern shoe manufacturing plant in a factory at Konnagar, near Calcutta.

In this factory, where modern machines and equipment had been installed, rubber and textile shoes were produced on a mass scale for the first time in India. This, indeed, proved a great step forward and a new chapter was thus started in the history of shoemaking in this country.

Although rubber and textile shoes by the millions were then being annually imported into India, the shoes produced by the newly formed Indian Bata Shoe Company soon captured the local markets and demand for them grew rapidly. The temporary factory at Konnagar proved inadequate to meet this expanding demand, and, in consequence, the Company built, within a few years, a spacious and permanent factory in its own township at Batanagar, near Calcutta, for the large-scale production of rubber and leather footwear. The Batanagar plant started operating in 1936 and, since then, it has expanded to a considerable extent in the years that have followed.

Others Come In

The phenomenal success achieved by Bata in producing and marketing rubber and textile footwear on a large scale naturally brought other Indian concerns into this new field thrown open for the footwear industry. In Calcutta, Bombay and other places, smaller factories for the manufacture of rubber and textile footwear were quickly set up, and, by 1939, before the outbreak of World War II, no less than 42 such factories were operating in the country.

With the consequent rise in the production in India of this kind of popular and low-priced footwear, the import of foreign shoes, which had for so long dominated the Indian market, started to fall rapidly and ceased altogether by 1940. The Indian industry was now meeting the entire demand for footwear within the country.

Another significant feature in this rapid progress of the Indian industry was that, by now, it had also succeeded in building up a substantial export trade in its products, turning this country from a major importer to a leading exporter of footwear abroad. Since then, footwear has continued to hold a prominent place among the many commodities regularly exported from India to different countries of the world.

Today, the U.A.R., the Sudan, North, East and West Africa, Cyprus, Jordan, Saudi Arabia and other countries in the Middle and Near East; Malaya, Thailand, Indo-China, Ceylon in the Far East; the United Kingdom, France, West Germany and other European countries, the British West Indies and other islands in the Pacific, Canada and even the U.S.A. constitute the world-wide markets for Indian footwear. By its regular exports, the Indian footwear industry is thus being able to earn substantial sums of much needed foreign exchange annually for the country.

The Second World War brought about conditions where Indian shoe manufacturers were faced with the major problem of having to carry on despite the extreme shortage of imported chemicals and several other raw materials necessary for the industry. The blockade of the Allied sea routes to India by the enemy effectively checked all imports of these items.

However, by carefully and efficiently husbanding their resources, the larger and better organised concerns were able to overcome this problem and, what is more, to turn their attention to serving the urgent needs of the Allied armies.

It certainly called for great effort and ingenuity suddenly to switch over, under extreme handicaps, from peace-time production of civilian footwear to producing at maximum pressure special types of military footwear for the Allied armies. But, within a remarkably short time, the larger manufacturing units were able to adapt themselves to the new situation and succeeded in meeting the extraordinarily heavy and urgent demand that was made on them. A new and comparatively infant industry was thus able to contribute its full share to India's war effort.

The partition of the Indian subcontinent in 1947 and the tragic events that followed immediately after India's independence again brought in their train fresh difficulties for the industry. Once again, the organised sector of the industry rose to the occasion and succeeded in meeting these difficulties and in keeping their production unimpaired to cope with the renewed and growing peace-time demand for footwear by making various readjustments in respect of labour and raw materials.

After Independence

Since independence, the organised sector has further expanded and progressed. Today, India can boast of a number of modern rubber and leather footwear factories operating in different parts of the country on a mass scale.

Of the existing shoemaking factories, the Kanpur plant of Messrs. Cooper Allen and the Bata plants in West Bengal and at Faridabad near Delhi deserve special mention. Bata's Batanagar plant, however, continues to hold the pride of place both as regards size and production capacity. With its several large workshops for the manufacture of leather and rubber footwear, its modern tanneries and its many auxiliary departments, which include sections concerned with research and the manufacture of shoemaking machinery, the Batanagar plant is, today, the largest single unit of its kind in the whole of Asia, where modern footwear of innumerable types and designs are manufactured on a vast scale on the latest assembly line system.

The present total annual production of footwear in the country by the two sectors of the Indian industry—the large-scale manufacturing sector and the cottage-industry sector—is approximately 135 million pairs. Out of this total, the annual output of the large-scale manufacturing sector is over 48 million pairs of leather and rubber footwear.

The larger manufacturing plants are highly organised and are run on the most modern lines. They are comparable in all respects to similar plants in the most advanced countries of the world.

Production of Footwear in India

Year	Pairs
1955	110,000,000
1956	112,000,000
1957	114,000,000
1958	119,000,000
1959	130,000,000

Export of Footwear from India

Year	Pairs
1955	4,029,000
1956	4,446,000
1957	4,717,000
1958	3,856,000
1959	4,800,000

Great importance is attached to efficient and scientific management of these plants where all possible advantage is taken of technical advances and other new developments in shoe manufacture to improve production methods and processes and to keep the plants thoroughly up-to-date. Special attention is also paid to quality and cost control and to improving productivity and the standard of efficiency of labour. Today, in the larger plants are employed many fully qualified Indian technicians and experts and several thousands of skilled Indian workers.

Distribution

On the distribution side, too, the organised sector of the Indian industry has been able to build up, during these years, a highly efficient and elaborately planned selling and distribution system. A vast network of retail, wholesale and agency outlets now covers the entire country operated by men trained in the latest methods and techniques of marketing and selling.

No account of the organised sector would, however, be complete without mention of the enlightened and progressive labour policy pursued by this sector and the various measures that are undertaken on behalf of its employees for the promotion of their welfare and well-being.

Congenial working conditions, opportunities for advancement, encouragement of individual initiative, fair and adequate rates of pay, bonus, provident fund and retiring benefits, paid holidays and other leave facilities, housing and medical facilities, social amenities, educational and recreational facilities—these are some of the many features of the elaborate programme undertaken by this sector to promote the legitimate interests and the welfare of its workers and to earn their loyalty and goodwill.

Labour Well Treated

In the larger plants, the fullest opportunity for collective bargaining and direct negotiations with management for settlement of disputes is provided to employees through recognised employees' unions. Day-to-day matters affecting the common interest and concern of employees and management are tackled by such joint consultative bodies as works committees and production advisory committees, composed of an equal number of representatives of employees and of management. A collective agreement between the management and the workers governs the code of behaviour and embodies the rights and privileges of the employees. Moreover, there are standing orders and rules defining working conditions, leave and holidays, scales of salaries and wages, complaints and remedies, grievance procedure, etc.

Today, shoemaking in a modern factory in India answers fully to the best concepts of a decent, congenial, remunerative and honourable calling. In fact, the establishment of modern footwear factories in this country has helped in a greater degree than any other factor to remove the stigma attached to shoemaking for centuries and to raise it to its present status of a dignified and much-sought-after profession.

The profession now attracts educated young men from the best of families and from all communities who are coming forward in increasing numbers to take up a career in shoemaking.

These are, then, some of the salient facts regarding the history and progress of large-scale manufacture of footwear in this country.

Future Prospects

What, one would naturally enquire, are the future prospects of the footwear industry as a whole in India?

A significant pointer in this regard is the steadily growing demand for footwear in the country and the great efforts on so vast a scale that are being exerted by the Government of this country to improve, expand and strengthen the agricultural, industrial and economic structure of this land of over 400 million people.

With the consequent growth in agricultural and industrial production, increase and spread of employment and the betterment of the standard of living of the vast majority of the country's population which the implementation of the country's successive Five-year Plans must progressively lead to, the shoemaker, whether working in a modern factory or in his small workroom, cannot but cherish unbounded hope for great and expanding opportunities. For, India with her vast population, is potentially one of the largest markets for footwear in the world.

When one considers the significant fact that, even today, only about 15 per cent. of the country's population wear any kind of footwear at all, as compared with the average of three pairs worn annually by every person in the U.S.A. and in Great Britain, one can well imagine the tremendous task that awaits the Indian footwear industry, as more and more of the barefooted millions take to wearing shoes. This they must inevitably do, as, with greater material prosperity, their purchasing power increases and social progress changes their outlook, ideas and habits.

Growing Desire

Leaving aside the cities and towns, already in the changing scene in the villages in India, one notices unmistakable signs of the awakened desire of even the simplest villagers in the remotest corners to live a better and more healthy life and to enjoy more material comforts. This desire is bound to develop into a demand in the not too distant future, which will require to be met in an adequate and increasing measure.

The colossal increase in production which will be needed even to meet the minimum requirement of one pair of shoes per year per head of the entire population of this country will not only provide extensive and widening scope to the small and cottage industry in footwear to develop and prosper but will also necessitate the setting up of many more large and modern factories and the considerable expansion of those now existing. This will result not merely in keeping all the traditional leather workers in full and fruitful employment but will also draw new people in their thousands from other communities into the industry.

Percentage of Shoe-wearers in Different Parts of India

State	Percentage
West Bengal	22.6
Assam	20 0
Bihar	21 0
Uttar Pradesh	10 5
Madhya Pradesh	23 3
Madras	22.2
Gujarat, Maharashtra, Orissa	33.4
Punjab (1.)	20.7
	39.0

Cottage Sector

In order, however, to ensure that the cottage-industry sector of the industry, now largely unorganised, can adequately and effectively play its expected part in the coming years, it is essential that its future development be so planned and organised as to enable it progressively to improve and strengthen its position both as regards production and distribution of its products *vis-a-vis* its counterpart, the large-scale sector.

That this has been engaging the serious attention of the Government of India is evident from the stress it has laid on the development of the cottage-industry sector of the industry in the Second Five-year Plan programme and the steps it has taken in this regard under the Plan.

Besides deciding to encourage more production of leather footwear in the cottage-industry sector during the Second Plan period by setting the annual production target of 102 million pairs of leather footwear at the end of this period, the Government, in its efforts to help this sector to make progress, has already set up technical institutes in Madras and Uttar Pradesh to give specialised training to local shoemakers in the production of footwear by modern methods. Better credit and marketing facilities are are also being offered to the cottage industry in footwear through Government channels.

Collaboration

Moreover, there is growing collaboration within the industry between the larger manufacturing concerns and the cottage industry units. Apart from regularly purchasing large quantities of footwear made by these small units to supplement their own products, the larger concerns have been readily volunteering aid in the form of technical and other assistance and offering practical advice on new developments in footwear styles and designs.

The development of the cottage industry sector is also one of the main items in the programme of work of the present Development Council for Leather and Leather Goods Industries which was originally constituted as a panel for these industries by the Government of India in 1958.

The Council, in which the cottage-industry sector is also represented, is at present engaged, among other things, in studying the problems and difficulties of the small and cottage industry units, with a view to recommending to the Government suitable measures to be adopted for the standardisation and improvement of quality of their products, making raw materials and suitable machinery available to them and rendering them technical and such other assistance as would lead to the development of the cottage industry in footwear on modern and organised lines.

The Council's recommendation to the Government to fix the industry's overall annual production target at 153 million pairs of leather footwear by the end of the third Plan period, with an export target of 5 million pairs, is indicative of the expected increase in participation by the small and cottage industry sector in the production of leather footwear during that period.

Some Problems

With so much already to its credit, the large-scale manufacturing sector, too, must fulfil its great responsibility of meeting the growing demand for footwear within the country and of increasing the sale of its products abroad in order to earn more foreign exchange which is now so vitally needed for the country.

This sector, however, is not without its own difficulties and problems at the present moment. Rising costs of labour and of raw materials, mounting distribution costs, rationalisation, productivity, etc., are some of the major problems with which this sector is now having to contend and many of these may not prove easy of solution in the near future.

So far as export promotion in footwear is concerned, the efforts of the large-scale sector in this direction could well yield the desired results, if the Central Government were to formulate a policy of more practical and liberal aid to the industry in this regard and provide it with such incentives as would help offset the factors acting as curbs on export under changing and difficult conditions.

Excise Duty

In this context, it must be pointed out that the present rate of excise duty on footwear manufactured by the large-scale sector is hardly conductive to the stepping up of export of footwear. This levy eats into the resources of exporters and proves a real handicap to their efforts to make the prices of their exported products sufficiently attractive to foreign buyers in the highly competitive overseas markets.

It may, therefore, well prove a step in the right direction, if, in alleviation to some extent of the impact of the levy on exports, Government were to link the excise duty with export performances.

Given the necessary encouragement and facilities, there is every reason to believe that the export of Indian footwear could be successfully and considerably increased and made to match the performances of such leading exporting countries as the United Kingdom and Italy.

Significant Developments Abroad

In Western countries, however, significant developments in manufacturing processes and in the utilisation of synthetic materials for footwear manufacture are taking place today. Particularly in the U.S.A. and in Europe, a constant search is in progress for new processes and new materials which would make the manufacture of footwear easier and help reduce manufacturing costs and make them more stable.

One of the significant features of these developments is the remarkable increase in the use of synthetic rubber, especially in the manufacture of rubber soles and heels. This trend will undoubtedly continue with the increased production and ready availability of synthetic rubber in the future.

In their search for new materials which can be easily processed and which would be entirely uniform, the Western manufacturers are also turning more and more to other types of synthetic materials.

Great progress has been made recently in the use of P.V.C. material for the manufacture of rubber footwear in these countries. In fact, the bulk of the protective type of footwear in the U.S.A., Canada and the United Kingdom is now being made by what is known as the "slush moulding" process, using liquid P.V.C. material. This material is also being used to great advantage in the manufacture of sandal type of footwear by the high pressure injection method.

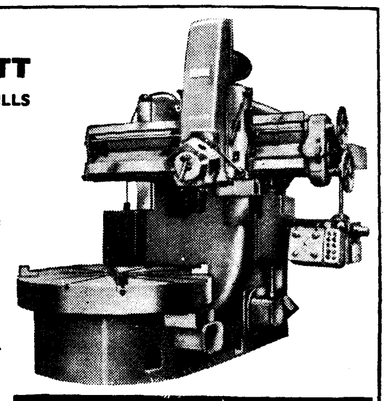
These are only a few instances of recent developments in the field of rubber footwear manufacture which, in course of time, will undoubtedly bring about revolutionary changes in the footwear industry throughout the world.

Already, in the overseas markets, footwear made with new synthetic materials are seriously competing with export of rubber footwear from India and this competition is likely to become more acute as the quality of these synthetic materials is further improved and their manufacturing costs are lowered.

It is vitally necessary, therefore, that the Indian footwear industry be granted import and other needed facilities by the Government of India to help the industry to keep pace with these new developments and take full advantage of them, in order to face the future with confidence in its ability to maintain its competitive position in the world markets.

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DYES AND INTERMEDIATES

Present Position and Plans for Development

By JOGINDAR SINGH

DEVELOPMENT OFFICER, UNION MINISTRY OF COMMERCE AND INDUSTRY

THROUGHOUT the ages, man has been in quest for beauty. This expression has been shown in a variety of ways. In the process, the idea of colour was conceived. Nature was the inspiring genius. Colour is there in every object that is visible to the human eye. This decoration has been provided by nature. The idea of using dyestuffs originated in the natural passion of man for varieties and fancies. Festival occasions are marked by the use of coloured costumes. Dyestuffs are playing a prominent part in our everyday life. Apart from the use of dyestuffs for decorative purposes, there are essential aspects of these products. The National Flag and the dress of the country mean more than what is physically apparent.

Until about the middle of the nineteenth century, most of the dyes in use were of vegetable origin, such as natural indigo, logwood, madder, *cutch*, quercitron, safflower, turmeric, etc. At one time, previous to the discovery of coal-tar dyes, the textile colorist had to rely very largely on vegetable dyes. Indigo and alizarine of agricultural origin were having great commercial importance. Before the Franco-Prussian War, the annual production of natural madder that yields alizarine was about 70,000 tons, valued at £4 million. This flourishing business collapsed consequent on the synthesis of alizarine. With the commercial synthesis of indigo, Indian plantations of indigo received a deathblow. Artificial alizarine and indigo are the two landmarks in the history of synthetic dyes. The work and efforts of scientists like *Hofmann, Kekule, Liebig, Baeyer*, Fisher, Griess, Thomas and others favoured the growth of synthetic dyes manufacture. These are in general comparatively cheap. Some have remarkable fastness properties and are available in various shades and brilliancy.

Strategic Importance

The dyestuff industry has strategic importance for a country. It is a nucleus around which other chemical industries can develop. Progress of dyestuff industry is linked with the development of other essential chemical industries such as heavy inorganic chemicals, coke oven by-products and coal-tar distillation products, fine chemicals and pharmaceuticals, explosives, synthetic plastics and solvents. Some of these industries provide raw materials for dyestuff manufacture and others have developed from the dye industry or depend on it for some of their raw materials. The products of dye industry contribute to the strength of national economy in times of peace and the industry can be readily switched over to the production of defence materials in times of emergency.

In general, coal-tar dyes belong to one or other of the following groups:—

(i) *Acid Dyes*: These are used for dyeing of wool and silk and are mostly sulphonic acid compounds derived from azo derivatives of benzene, toluene and naphthalene.

(ii) *Direct Dyes*: These again are azo compounds that dye cotton without the use of a mordant. Some of them are applied to wool and silk also.

(iii) *Basic Dyes*: These belong to the group of substituted amines and are chiefly used on cotton and wool. They are, however, losing their importance with the greater use of vat dyes and azoics.

(iv) *Mordant and Chrome Dyes*: Alizarine and dyes derived from it represent this group of dyes. They are losing their importance, because of the tedious processes that are to be followed in their application. They are applied to cotton and wool.

(v) *Azoic Dyes*: Naphthols, fast colour bases, fast colour salts and stabilised azoics fall under this group. Here the formation of colour takes place on the fibre itself. Fast colour bases are diazotised and coupled with naphthols. Fast colour salts which are stabilised diazotised bases can be used directly with naphthols. Stabilised azoics are mixtures of stabilised diazo compounds and naphthols.

(vi) *Vat Dyes*: These are anthraquinonoids and indigoids and possess superior fastness properties. Vat dyes are insoluble in water and are applied in alkaline solution of sodium hydrosulphite. Their prominent use is for dyeing of cotton.

(vii) *Sulphur Dyes*: These are comparatively inexpensive dyes available in the market to produce shades of black, green, blue and brown. Sulphur black is most commonly used and applied to cotton. Sulphur dyes are fast to light and washing but do not possess good fastness to bleaching agents.

(viii) *Acetate Dyes*: For meeting the special requirements of acetate silk, new types of dyes have been developed. These are insoluble azo compounds or insoluble anthraquinone derivatives.

Apart from their use for textiles, synthetic dyes are employed in the colorisation of so many other materials, such as paper, leather, oils, soap, plastics, paints, varnishes, lacquers, printing inks, food, drugs and cosmetics. They are also used as indicators, staining agents in becteriology and sensitisers for films and plates in photography.

Dyestuff industry is of comparatively recent origin in India. A small beginning was made only in 1940 with the production of rapid fast colours. The real necessity of establishing this industry was felt strongly during World War II. In 1941, the Dyestuffs Exploratory Committee to consider ways and means for the manufacture of synthetic dyes was set up by the Government of India. This Committee recommended the establishment of dyestuff manufacture in India has early as possible. The plan prepared by the Committee envisaged:

(*a*) manufacture of 51 selected dyes within a period of about five years;

(*b*) manufacture of some of the intermediates during this period;

(*c*) manufacture of all the intermediates required for the 51 dyes within ten years;

(*d*) production of all the dyes required in substantial quantities in the country together with all the necessary intermediates within a period of 15 to 20 years.

This was followed by negotiations between Tata Sons Ltd. and Imperial Chemical Industries Ltd. of the U.K. for establishing a dyestuff industry in this country, but these did not yield any fruitful results. Subsequent development took place only in 1952, when Atul Products Ltd. started their manufacturing activities in collaboration with American Cynamide Company of U.S.A. and covered the production of a fairly large number of azo dyes and sulphur black. Further progress was achieved in 1956 during which year the important manufacture of naphthols, fast colour bases and a few vat dyes was established. Recently, Atic Industries (P) Ltd. have completed their expansion programme for vat dyes and Colour-Chem Ltd. have put up a factory for the manufacture of organic pigment colours and pigment emulsion colours for textile printing.

The important developments so far have been possible largely with the technical assistance provided by American Cyanamide Company, U.S.A., Ciba Ltd., Geigy and Sandoz Ltd. of Basle, Switzerland, Imperial Chemical Industries Ltd., Hickson and Welch Ltd. of U.K. A.C.N.A. of Italy, Farben Fabriken Bayer and Farbwerke Hoechst AG of West Germany.

Present Position

Development of this industry in the country is regulated under the Industries (Development and Regulation) Act, 1951. At present, there are 17 industrial units registered under this Act. Ten out of these are located in Maharashtra State, four in Gujarat State, two in Delhi and one in the Punjab State. In addition, there are quite a few small-scale units in operation in the country. The total fixed capital investment in the organised sector of the industry is Rs. 6.4 crores. The paid-up capital of the companies engaged in manufacture is Rs. 9 crores. Out of this, capital of Rs. 2.5 crores is held by foreigners: 44 per cent. is United Kingdom, 31 per cent. Swiss, 12 per cent. West Germany, 2 per cent. United States and 11 per cent. Italian. The number of workers employed by the industry is about 3,100. Some of the dyestuff producers have other manufacturing activities also.

Import of dyestuffs into the country in the year 1935-36 was of the value of Rs. 3 crores only. The peak was reached in 1954-55 when imports rose to Rs. 16 crores. During 1959, there was a drop to Rs. 7.14 crores. The gradual elimination of imports has been possible largely on account of the growing indigenous production and, to some extent, it has been necessitated by the foreign exchange difficulties. The indigenous production of synthetic dyes in 1955 was of the value of Rs. 1.7 crores only. According to the current rate of production, the value of output in 1960 may be estimated at Rs. 10 to Rs. 12 crores.

Production of dyestuffs in the country as at present is based on imported complex intermediates. In some cases, it involves only the processing of imported finished products and penultimates. Import component in the indigenous production was about 50 per cent. in 1957; it improved to 40 per cent. in 1958 and 35 per cent. in 1959. This type of development undoubtedly is not quite satisfactory. It, however, has helped to build up the demand for intermediates which is now growing fast. Ultimately, production of finished dyes has to be based on indigenous raw materials.

The basic organic raw materials for the manufacture of synthetic dyes are mainly benzene, toluene and naphthalene. These are by-products of coal carbonisation. The principal object for the carbonisation of coal is to produce coke for metallurgical industries. The by-



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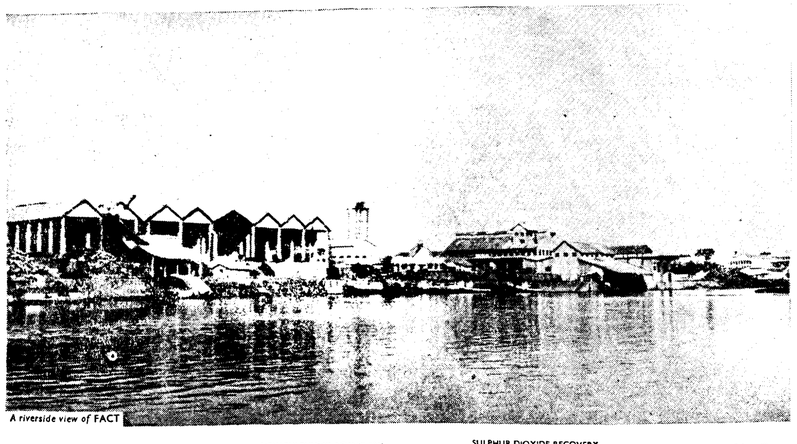
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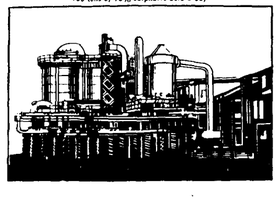


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Superphosphate ...	150	150	150
Ammonium phosphate ...	—	100	100
Phosphoric acid ...	—	25	25
		(P_2O_5)	(P_2O_5)
Sulphur dioxide ...	—	10	10

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THE FERTILISERS AND CHEMICALS, TRAVANCORE LIMITED
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product coke oven plants are associated with the iron and steel industry of the country. Limited production of benzene, toluene and naphthalene has already been there, but it will be considerably stepped up when the recovery units in the three steel plants in the public sector at Bhilai, Rourkela and Durgapur have gone into operation after some time. The current production of benzene is about one million gallons per year and most of it is absorbed in the manufacture of insecticides. In about two years' time, the country should be able to produce 8 million gallons. In advance of this increase in production, there has been a phenomenal increase in demand. By the end of 1965-66 production is anticipated at 16 million gallons per year. Even this quantity may not be adequate for meeting the growing requirements of the country for various purposes, such as manufacture of intermediates, synthetic rubber, polystyrene, synthetic fibres, synthetic detergents, insecticides, etc. In course of time, it will be necessary to think in terms of producing benzene as a petro-chemical.

In the case of toluene, the current production is about 0.1 million gallons. This may be stepped up to about 2 million gallons in two years' time and to 3 million gallons in 1965-66. According to the current indications, indigenous production of toluene would be adequate for meeting the requirements of various industries so far planned.

Naphthalene has been produced in limited quantities on account of short supply of coal tar for distillation. The current production of about 700 tons per annum is required mostly for making insecticides. During the next two years or so, with the completion of the new schemes, capacity for the production of naphthalene of various grades should increase to 8,000 tons per annum. By 1965-66, production may exceed 15,000 tons, provided adequate arrangements are made for recovery of naphthalene from the available crude coal tar. Thus, the supply of basic raw materials for the organic chemical industries that have been planned so far will be ensured.

This object of linking the existing production of dyestuffs to the basic organic raw materials that are going to be available in the country in fairly large quantities and thus placing it on a sound footing has been engaging the attention of the authorities for some time now. There are quite a few dyestuff factories which need intermediates but all of them are not in a position to produce their own requirements. Some of the units are too small and do not have adequate resources. At the same time, it may not be desirable to concentrate the manufacture of intermediates in a few hands creating conditions of monopoly. This feeling led to the idea that manufacture of primary intermediates should be developed in the public sector. The position was fully surveyed with the assistance of foreign experts and it has been decided to organise production of basic organic chemicals and intermediates required by dyestuff and allied industries. For the implementation of this project, the Government of India have entered into an agreement with a West German consortium, consisting of Farbenfabriken Bayer Aktiengesellschaft, Leverkusen-Bayerwerk, Badische Anilinund Sodafabrik Ag., Ludwigshafen, Farbwerke Hoechst AG. Vorm. Meister Lucius and Burning, Frankfurt Am Main-Hochst and Friedrich Uhde GmbH., Dortmund, Deggingstr. It has been decided to locate this factory in Apta-Kharpada area in Maharashtra State, after taking into account the pattern of production, requirements of raw materials and their likely sources of supply, requirements of land, water and power, composition and quantities of effluents, etc. Initially, 47 important products will be manufactured here with benzene, toluene and naphthalene as starting raw materials and employing the united processes of sulphonation, oxidation, condensation, caustic fusion, methylation, acetylation, carboxylation, esterification, methoxylation, chlorination and reduction. The total quantity of the various raw materials, organic and inorganic, required will be about 40,000 tons per year and the output of intermediates for sale would be about 10,000 tons per year.

A number of products manufactured in the factory will be available for sale in their entirety, production of some will be required for the factory's own use and some of the intermediates will be produced for the factory's own requirements as well as for sale. The position is explained in the table below for the benefit of consumers.

Benzene, toluene and naphthalene will be drawn from the steel works. The intermediates factory will be producing its own requirements of sulphuric acid and oleum, nitric acid by oxidation of ammonia and aluminium chloride.

Prospects

It may be expected that, during the next four to five years, India would become one of the important dyestuff producing countries, using mostly its own raw materials. By that time, requirements of coal-tar dyes may reach a level of Rs. 25 crores per annum. No country in the world is self-sufficient and it may be too much to expect that imports can be dispensed with altogether. The third Five-year Plan capacity targets for the important dye groups have been fixed as follows:

Acid and direct dyes 3.000 million kgs., basic dyes 0.909 million kgs., naphthols and fast colour bases 1.273 million kgs. each, vat dyes 1.227 million kgs., organic pigment colours 1.182 million kgs., sulphur black 2.273 million kgs. and other sulphur dyes 0.227 million kgs.

These targets do not appear to be overambitious. It may be expected that, by 1965-66, the country's requirements of all important dyes and intermediates would be met from indigenous production.

Production of Intermediates

Item	Total production planned (Tons per year)	Quantity required for factory's own consumption (Tons per year)	Quantity for sale (Tons per year)
Anthraquinones	650	..	650
Phthalic anhydride	1,500	550	950
B-Naphthol	750	..	750
o-Nitrotoluene	637	447	190
m-Nitrotoluene	22	22	..
p-Nitrotoluene	340	340	..
o-Nitrochlorobenzene	180	430	..
p-Nitrochlorobenzene	350	190	160
Chlorobenzene	3,500	3,365	135
o-Dichlorobenzene	415	..	415
p-Dichlorobenzene	470	100	370
2-Nitroaniline	330	330	..
4-Nitroaniso]	85	85	..
4-Chloro-2-Nitroanisol	70	70	..
Aniline	1,750	930	820
o-Toluidine	320	..	320
m-Toluidine	15	..	15
p-Toluidine	165	..	165
o-Anisidine	240	..	240
p-Anisidine	60	..	60
o-Chloroaniline	40	..	40
p-Chloroaniline	60	..	60
4-Chloro-2-anisidine	50	..	50
2-5-Dichloroaniline	20	..	20
m-Nitrochlorobenzene	100	100	..
m-Chloroaniline	70	..	70
Dimethylaniline	250	..	250
Acetanilide	1,000	..	1,000
Acetylsalicylic acid	150	..	150
m-Amino phenol	250	250	..
Salicylic acid	300	150	150
p-Amino salicylic acid sodium salt	200	..	200
m-Nitrobenzene sulphonic acid	850	760	90
p-Nitrotoluene sulphonic acid	90	90	..
Dinitrostilbene disulphonic acid	72	72	..
Nitrobenzene	3,500	3,500	..
Nitrotoluene crude	1,100	1,100	..
Dinitrobenzene	150	..	150
Dinitrotoluene	50	..	50
Dinitrochlorobenzene	1,000	..	1,000
1-4 Dichloro-2-nitrobenzene	110	110	..
Nitrochlorobenzene crude	550	550	..
Metanilic acid	605	605	..
Diaminostilbene disulphonic acid	50	..	50
Phenol	1,500	250	1,250
Phenylphenols	100	..	100
Phenoxy acetic acid	20	..	20



Coal Production and Handling Practices in U.S.

High Degree of Mechanisation Restrains Rise in Price

By S. K. MAJUMDAR, B.Sc., B.E., A.M.I.E.
DESIGN ENGINEER, CENTRAL FUEL RESEARCH INSTITUTE

THE fuel market is highly competitive in the United States. The energy requirement of the country is increasing every year, and is expected to be doubled in the next 20 years in comparison with the present rate, and most of it will be met from conventional fuels and falling water. But the contribution of bituminous coal is decreasing, owing to serious competition with oil and natural gas. The railways have switched over to diesel after World War II and American homes as well as industries are using oil and gas increasingly. The railways used to consume about 125 million tons per year prior to World War II, whereas their present requirement is of the order of 4 million tons only. Export of coal has also dropped considerably due primarily to excess production in Western Europe. The expanding steel and, especially, the power plants have, however, compensated these adverse factors to a great extent. The electric utilities consumed 168 million tons in 1958 and 93 million tons in 1950.

The reserve situation of coal is far better than that of any other fuel. The recoverable coal reserves, assuming 50 per cent. recovery, were estimated to be 949.8 billion tons on 1st January 1953. Some people are of the opinion that coal will be relied upon to the greatest extent in the future development of the country, until the nuclear energy becomes abundant and economic. Some experts feel that coal will come back to railways also in the form of "coal by wire," as the railways will be gradually electrified.

Production

The United States of America is one of the largest producer of coal in the world. The production in 1959 was 410 million tons (estimated), and could have been more had there been no steel strike. The Soviet coal industry is reported to have produced 545 million tons in 1958.

Estimates, as of 1958, show the existence of 8,264 active coal mines, of which 1,646, 299 and 6,319 are strip, auger and underground mines, respectively. About 70 per cent. of the production comes from the deep mines and 30 per cent. from strip and auger mines. Some of the largest mines are producing 18,000 to 20,000 tons of coal per day.

The average thickness of overburden in strip mines was 42 feet in 1955. Some mines are handling even 60 to 70 feet of overburden. The average cost of production of strip coal is only two-thirds of the cost of the coal produced from underground mines. The price difference is declining, because of increased productivity of the deep mines, scarcity and high cost of strip mines.

About 90 per cent. of the entire production in the U.S. comes from West Virginia, Pennsylvania, Virginia, Kentucky, Illinois, Ohio and Indiana.

Coal Production

(Percentage of total)

	1958	1959
Strip mines	28.3	30.0
Auger mines	1.8	1.9
Mechanically loaded underground	59.3	58.3
Mechanically mining total	89.4	90.2
Total mechanically cleaned	63.1	63.4

Source: *U.S. Bureau of Mines figures.*

In 1958, the rates of production per man per day in underground and strip mines were 11.33 and 21.54 tons, respectively. The total number of men engaged in bituminous coal mines in the same year was estimated by the U.S. Department of Commerce to be 197,402 and the average hourly income of a mine worker was £3.02.

In 1959, electric utilities in the U.S. consumed 42 per cent. of total production, while steel plants and industries consumed 25 per cent. each. The National Coal Association gave the following estimate of coal consumption by the different industries in 1960:

	Million tons
Electric utilities	190
Coking coal	103
Industrial	88
Retail	28
Export to Canada	12
Export to overseas	20
Total	436

Coal industry in the U.S. is striving its best to compete with other fuels and to keep the delivered price competitive by developing better and more economical ways of production, preparation and transport. In 1948, the price of coal was £4.99 per ton at the pit-heads, whereas in 1960 it is only £5.00. In spite of almost doubling the basic wage rate of labourers, mounting supplies and welfare cost, the price of coal has remained stabilised because of increased productivity due to adoption of mechanisation. As a result, the modern coal industry has become a well-equipped, highly mechanised, material handling giant.

Stripping shovels with capacities ranging from 60 to 70 cubic yards and walking draglines with swinging buckets of about 40 cubic yards are being used in many mines. A giant shovel is under construction which will pick up 173 tons of overburden in one bite, dump the same 464 feet away and will swing back for the next bite in no more than 50 seconds. Dumping trucks, with capacities ranging from 40 to 60 tons, are common. Some trucks of 100 tons capacity each are being used presently, while some with capacities of 200 tons are reported to be coming up. The railway wagons commonly used are of 55 or 70 tons capacity. The capacity of the mine cars vary from 10 to 30 tons. Large belt conveyors with capacities ranging from 1,200 to 1,500 tons per hour are used in some mines for transporting coal to the surface from underground.

Fuel Policy

The need for a national fuel policy is being increasingly felt by the U.S. coal industry for proper development and prudent utilisation of the basic energy resources. It is needed also for the welfare and security of the nation and to foster healthy and vigorous competition between the various fuels. In 1940, 64.6 per cent. of the underground coal mines used to load by hand, while, in 1958, the corresponding figure was 15.1 per cent. only. The strip mines use mechanical loading system.

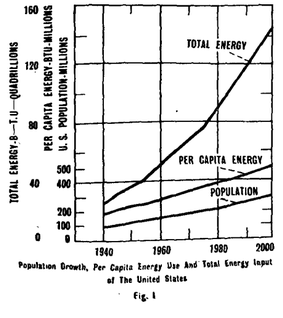
Increased mechanisation in the field of coal production has given rise to higher proportion of impurities with the coal mines. This has augmented the adoption of mechanical cleaning.

The refuse content of the coal mines varies widely from 10 to 30 per cent. The average refuse content of the raw coal mechanically cleaned in the year 1958 amounted to 19.3 per cent.

The consumers are specific in their requirement as regards ash and moisture content, size range, etc., of coal, so that they can minimise capital and operational cost in their plants. Moreover, it has been found that the overall cost of burning unprepared coal is higher than that for prepared coal. Correspondingly the demand for, as well as production of, clean coal is increasing rapidly, especially after World War II. The prepared coal is consumed not only by the steel plants but also by the power plants and other industries.

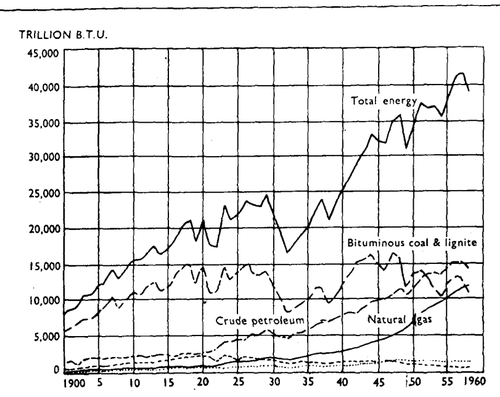
The producer had to resort to complicated, flexible, highly automatic and naturally costly coal preparation plants, with facilities for crushing, screening, blending, washing, dewatering and drying, so that they can produce and supply high quality products to consumers, enhance their profits and hold not only the existing consumers, but also capture new markets.

The coals of the United States have, in general, easy cleaning characteristics. Hence, two products, namely, cleans and refuse are generally obtained when they are washed. There are about 573 preparation plants in operation which clean about 63 per cent. of the total production. The capacity of the



Population Growth, Per Capita Energy Use And Total Energy Input of The United States

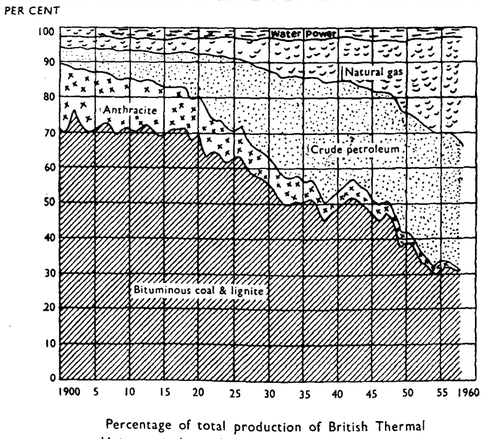
Fig. 1



Production of mineral-energy fuels and energy from water power in continental United States

(Source: Bureau of Mines, U.S.A.)

Fig. 2



Percentage of total production of British Thermal Units equivalent of mineral-energy fuels and energy from water power in continental United States.

(Source: Bureau of Mines, U. S. A.)

Fig. 3

preparation plants vary from 500 to 2,000 tons per hour. The larger plants have provision for washing coarse, slack and fine coals separately in a number of parallel circuits. Some plants have facilities for blending raw coal prior to washing, in order to get consistent plant feeds and the different washed products.

The plants commonly used for cleaning coarse or slack coals are Baum Jigs, Dense-Medium Separators using sand or magnetite, double deck deister-tables and cyclones.

The cost of cleaning and dewatering of fine coals is considerably higher than that of the coarse coal. Yet, because of mounting, labour, material and supply costs, it has been found that the cost of cleaning and recovering coal as fine as 10 mesh to 0 is less than that of the mining. Moreover, modern mining has led to increased production of very fine coal containing a high percentage of impurities. These have led to the adoption of flotation for cleaning the fines and slurries in most of the large preparation plants installed recently. Stream pollution regulations have led to the adoption of flotation cells too for treatment of the washery effluents.

The preparation plants in the U.S. have rarely any storage for holding clean coal. The products are continuously loaded on to wagons or barges and despatched as produced. They are dewatered in centrifuges and dried in heat dryers prior to loading, in order to lower the moisture content to about 2—3 per cent. Over and above, they are crushed, sized and blended in some cases to meet the consumer's specifications.

About 75 per cent. of all coal moves to the market by rail. Truck is the most economical system of transportation for consumers located at a short distance from the preparation plants and hence shipments by this method is increasing.

River transport is being used to a great extent. It has been possible to deliver coal to the market in the mid-west extending from Canada to the Gulf of Mexico due to inland waterways. A single cargo of coal on the waterways is about 20,000 to 30,000 tons. Coastal shipping is also practised to some extent.

Clean coal of 14 mesh to 0 size range is being pumped continuously along with water from Georgetown preparation plant to a power station at East Lake in Ohio, a distance of about 108 miles, at the rate of 1.5 million tons a year.

Dump trucks have taken over a large part of the refuse disposal job in coal industry. Long belt conveyors and aerial tramways are also used in different coalfields. Refuse is pumped to worked out mines in a number of installations where there are facilities for recovering water.

The plants, in general, operate in two shifts of 7 hrs. 15 minutes each. Some are working in three shifts too. The operational control of all preparation plants has been centralised. The conveyors and other equipment are sequence interlocked. Closed circuits television is also used in some plants as well as in some coal loading docks for centralisation and remote operation control.

Talk-back loudspeakers are used in all plants for quick communication between operators in different strategic points to assist in the smooth operation of the plants. Wireless telephones are also used frequently for communication between preparation plants, mines, supervisor's automobiles and office for efficient synchronisation of work between the various departments.

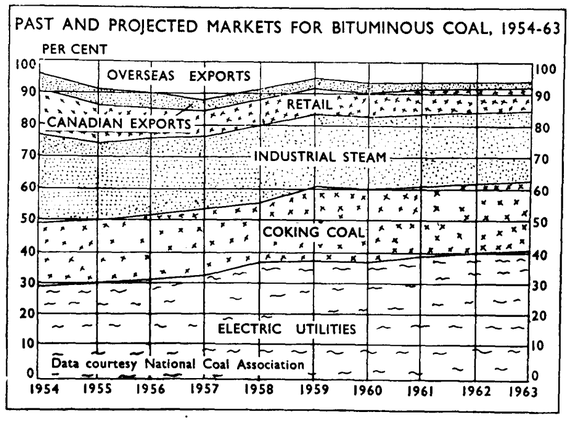


Fig. 4

Notice

SHAW WALLACE AND COMPANY, LIMITED

DIVIDEND ON PREFERENCE SHARES

THE DIRECTORS HAVE DECLARED a Second Interim Dividend of 3 per cent., subject to deduction of Tax under Section 18 (3) (D) of the Income Tax Act, 1922, on the Company's Preference Shares in respect of the year 1960, payable to Members whose names appear in the Preference Share Register on the 16th January 1961. Warrants will be posted on or after that date to the addresses or in accordance with the instructions recorded in the Company's books.

The Transfer Register of the Preference Shares will be closed from the 9th to the 16th January 1961, both days inclusive.

Adjustments, if any, in the dividend as declared will be made on enactment of the Preference Shares (Regulation of Dividends) Bill, 1960.

By Order of the Board,
SHAW WALLACE & COMPANY LIMITED,
D. A. HOUGHTON,
Calcutta Director & Secretary.

4, BANKSHALL STREET,
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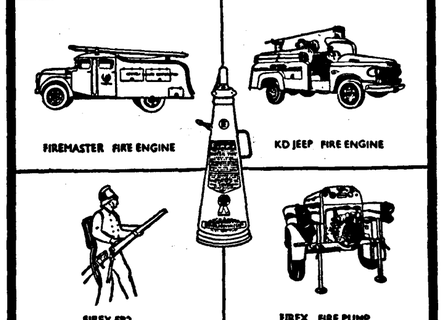
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IMPORT CONTROL—EXPORT PROMOTION

By Dr. S. P. CHABLANI, M.A., Ph.D.

[The author was formerly Professor of Economics at the Sind College, Karachi; and some time Private Secretary to the Union Minister for Rehabilitation. Until recently, he was First Secretary (Commercial) and Chief of the economic desk at the Indian Embassy in Bonn (West Germany) (1955-60). He is now Joint Chief Controller of Imports and Exports, Ministry of Commerce and Industry, Government of India. Dr. Chablani is also author of Economic Conditions in Sind *(Publishers: Orient Longmans);* Resettlement of Refugees in the Federal Republic of Germany *(Publishers: Institute of International Economics, Kiel); and* Economic Conditions in Germany and Indo-German trade.—ED.*]*

IMPORT of all goods in India, with a few exceptions, is controlled. Import control was first introduced in May 1940 as a war-time measure under the Defence of India Rules, largely with a view to conserving foreign exchange and shipping space. Its main objectives have since undergone a change; and import control now serves not only as a means of preserving foreign exchange but also as a vehicle of industrial development and export promotion. In a measure, it has also been used as an instrument of price moderation.

In the initial stages, import control applied only to some seventy items of consumer goods. But, as the war progressed and foreign exchange and shipping tended to become scarce, the scope of import control was gradually extended.

But, by far and large, the exchange situation in India before 1947 was relatively easy. India had accumulated large sterling balances; and, as the reserves of the entire sterling area were managed centrally through the Treasury in London, sterling was hardly regarded as "foreign exchange." And, as exchange control extended only to the non-sterling countries, a very large segment of India's import trade was relatively free. The guiding principles for the licensing of imports during this period were "essentiality" and "non-availability" of goods from indigenous sources; but these were not meticulously observed.

War-time restrictions had starved the markets in India; and a highly inflationary situation developed. Therefore, a liberal import policy had to be adopted in 1945 when the hostilities ended. This policy continued to the end of 1946. The goods imported in pursuance of this policy were mostly of luxury and non-essential categories, essential stores being in short supply in the exporting countries. At the same time, large imports of foodgrains—and the failure of our exports to expand correspondingly—led to a heavy drain of foreign exchange.

Independence and After

On the eve of independence in 1947, India's import policy began to be re-orientated. It was realised that unplanned imports would no longer be possible; the country would have to restrict her oversea indents to what she could pay for from her current external income and the limited drawals from her sterling balances. As the then Commerce Minister stated before the Import Advisory Council, "From July 1947, import trade control entered on a new phase, being linked closely with foreign exchange control and the balance of payments problem." Throughout the twelve months ending June 1948, import policy continued to remain restrictive. Meanwhile, the prices of industrial and essential consumer goods moved along an upward curve. So Government began to have second thoughts on her import policy; and they felt that, by their "restrictive import policies, Government were imposing on consumers a measure of austerity which was not warranted by the limitations of our foreign exchange balances with soft currency countries." It was against this background that the import policy was again revised, with a view to increasing the supply of consumer and industrial goods in the country to keep the wolf of inflation at bay.

However, these measures of liberalisation could not be continued very long. In 1949, India's export earnings from dollar and hard currency areas had fallen; and, accordingly, it was decided that commercial imports from these areas could not be continued unabated. The Open General Licences were withdrawn, and other measures of restriction were introduced. The devaluation of the pound sterling to which the rupee was linked made the situation still more difficult and cuts on the dollar area became imperative. These measures remained practically unchanged to the middle of the first Plan period. But, when the Plan began to unfold itself and the economic movement gathered momentum, heavy indents had to be placed abroad for the import of machinery, capital goods and raw materials to keep up the tempo of development. The import of consumer goods, too, was considerably liberalised and the period from the middle of 1954 to the end of 1956 may be characterised as a period of intense liberalisation. Import quotas were enhanced; a scheme of liberal licensing was introduced; the number of banned items was reduced; minimum value of licences were increased; and the "basic period" was expanded.

When imports materialised against these measures of liberalisation, the bill of fare rose sharply from Rs. 586 crores in 1953 to Rs. 1,068 crores in 1957. The table below speaks for itself:

(Values in lakhs of Rs.)

Years	Imports	Exports	Balance of trade
1953	585,72	531,18	— 54,54
1954	620,70	562,66	— 58,04
1955	672,86	608,01	— 64,85
1956	821,05	619,35	—201,70
1957	1068,25	656,52	—411,73
1958	877,84	562,18	—315,66
1959	887,38	622,74	—264,64
1960 (upto June) ..	454,47	302,31	—152,16

The foreign exchange situation became difficult, the more so because overseas loans and long-term credits could not be easily obtained; and India had to finance her import programme practically by "cash payments" out of her own resources. It, therefore, became necessary to apply the brakes. Over the last five years, the import of over seven hundred items has had to be banned; import quotas all along the line have had to be drastically cut down, and General Licences altogether abolished. The broad trends of India's import policy are indicated in Table I.

But despite these measures, our import programme still continues to be heavy; and, as exports have not kept pace, the country faces a yawning trade gap. Therefore, the available foreign exchange resources have been judiciously distributed for the import of commodities essentially required for the developing economy. The entire accent now is on the import of industrial raw materials, and plant and machinery; and the inflow of consumer goods has been severely curtailed. The effect of this policy is reflected in Table II. It will be seen therefrom that the proportion of consumers goods imported from abroad has fallen from 41 per cent. in 1952-53 to 16.8 per cent. in 1960, whereas that of industrial goods has risen impressively from 46.5 per cent. to 69.0 per cent. in the same period.

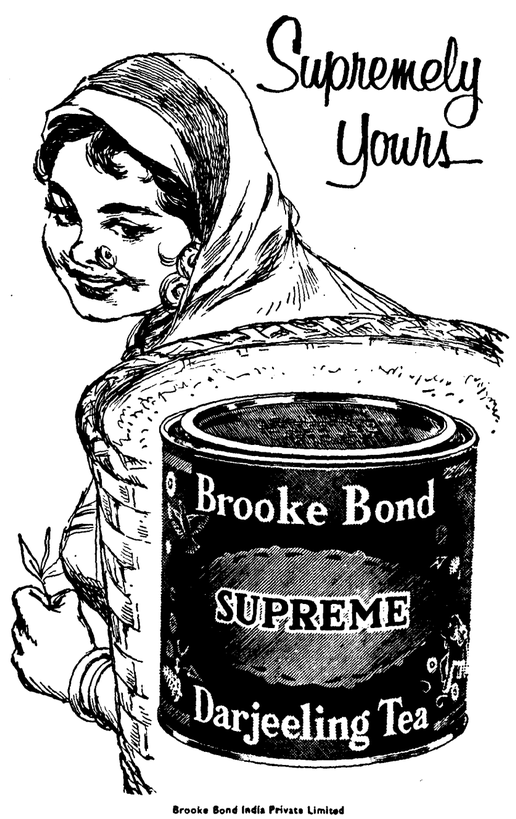
Sterling balances have now reached rockbottom; and, as the Finance Minister recently stated in Parliament, the entire third Plan period will be a "continuing and difficult quest for foreign exchange resources" to match the external costs of our developmental projects and to service our debts. It is, therefore, patent that the present trends of our import policy will continue for sometime.

Technique Well Developed

Import control is operated through a well developed technique which has evolved over the years. Fundamentally, India is a multilateral trading country and import licences are valid, generally, not on specific countries but on *currency areas*, so that a person owning a licence on the soft currency area can utilise it wholly in any particular country of his choice within the area or he may use it on more than one country if he so wishes. And dollar licences are valid for all countries in the world. With the recent introduction of free convertibility of European Currencies, all soft currency area licences are generally valid for the dollar area; and the earlier distinction between the soft currencies and the dollar has tended to melt away. Thus, the choice is left entirely to the importer to effect his purchases wherever he will, for he is the best judge of his own interests. In this respect of multilateral applicability of its import licences, the Indian import control system is far in advance of many contemporary systems.

Of course, this system of "freedom of choice to the importer" has the inherent weakness that it does not place upon the supplying countries any corresponding obligation to buy from India. More recently, therefore, India has entered into bilateral arrangements with a few countries on the basis of "balanced trade." Such an arrangement seeks to boost India's exports to these markets which to us are new and of unfathomed possibilities. At the same time, it opens up fresh sources of supply of goods essentially required for the development of our economy. It also envisages payment for our imports from these sources in inconvertible rupees, for the time being, and so serves as a new line of long-term credit.

On the export side, the public policy is one of progressive relaxation and decontrol, consistent with the internal needs of the country. It is a determined policy of export promotion. Major steps have been taken during the last few years to liberate hundreds of items from the trammels of control and several items have been placed on the free licensing list. The banned items are relatively few, principally those which are urgently required in the country or are of strategic significance.



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A new method of export promotion through the vehicle of import control has been introduced in recent years. There are certain articles in which the ability to export depends largely on the facility with which the exporter can procure the basic raw materials required for the end-product. With a view to promoting the export of such goods, several schemes have been devised under which import licences are granted specifically for the purpose of *replacing* the imported raw material content of the products to be exported. Under the scheme, the value of the import licences granted to the exporter bears a direct relation with his export performance. Licences are also granted on a "loan basis" in anticipation of the exports; and, therefore, 'export' becomes an *obligation* under the scheme.

It is too early yet to gauge the effect of these schemes. But there is little doubt that the system offers a powerful incentive for larger exports, though, of course, it has been sometimes abused.

It is not known as to what proportion of Indian goods go to the various destinations *direct*; but there is evidence to show that a great bulk is handled through the *entrepot* countries. To West Germany, for instance, in 1959 as much as 40 per cent. of our goods went through *indirect* channels; and for the direct trade the credit must belong not to the Indian exporters, but to the foreign importers who skim the globe for supplies essentially required for the maintenance of their economy.

The absence of a direct link on the part of the Indian merchants with the business-enterprises in the various parts of the world is a serious disadvantage; and it naturally inhibits the organic growth of trade. It is, therefore, necessary for the Indian mercantile community to probe and study the world market—its needs and fashions, trading practices and methods of export promotion; to show to the business world the whole range of samples of the more important items of our exports; to build a network of agencies all over; to canvass business; to ensure follow-up sale; to make available the necessary commercial intelligence, and to devise reliable and impartial agencies for the settlement of disputes. Those tasks can best be performed through the medium of Chambers of Trade manned by Indian merchants in oversea markets in collaboration with their counterparts in those countries.

What is, at the moment, lacking is effective salesmanship, propaganda, publicity and personal contact with the mercantile community abroad. Although in many countries there are no statutory difficulties—in Western Germany, for instance, 90 per cent. of the import trade is free and the remaining items have fairly liberal 'global' or 'bilateral' import quotas—yet Indian goods have made no great headway. This is due entirely to our organisational weakness. Inside the country, of course, a great deal has been done to stimulate exports. A Directorate of Export Promotion has been set up at the Centre; Export Promotion Councils and Commodity Boards have been established, as also an Export Risks Insurance Corporation. Government also gives several fiscal incentives by way of drawbacks and rebates of duty. But overseas our exporters have practically no offices of their own, no agents or representatives.

The total number of Indian business men operating in Germany, at the moment, is only three. The situation on the Continent is no different, although in the U.K. the number of Indian business men would be a few thousand. This would show that the potentialities of the Continental market have not been fully grasped by the Indian business community. This is equally true of many other markets as well.

If India hopes to finance her increasingly growing development programme and to balance her foreign trade in the foreseeable future, the look and pattern of India's foreign trade will have to be reorientated. At present, a bulk of the Indian commodities entering into our export market consist of items which do not contain any high degree of technical skill or scientific knowledge and are, therefore, the less valuable per unit. Progressively, therefore, the country will have to concentrate our attention on the export of *manufactured* goods whose value is high in relation to their raw material content; and not only items produced in the private sector but also those manufactured in our national undertakings—railway stores and equipment, machinery, chemicals, light and heavy, fertilisers, telephones, to name only a few, will have to take a prominent place in our export schedule.

World prosperity today is on the crest of a wave; and although competition in the international markets is keen, there is doubtless a genuine demand for Indian goods not only for our traditional items like tea, coffee, jute fabrics, textiles, ores and leather but also for innumerable other items. There is a thirst, for instance, for Indian books and *magazines*; for our ancient thought and philosophy; for Indian music, art, culture and cuisine. But no one seems to suspect their export possibilities. Alike we must 'sell' the Indian sun, the blue sky and the eternal abodes of snow.

TABLE I
Trends of Import Policy

Period	No. of items on O.G. Ls.	No. of items carrying quotas of 50% or above	No. of items carrying quotas between 10% and 50%	No. of items having quotas below 10%	No. of items banned
July-December, 1952 ..	153	110	17	12	200
July-December, 1956	109	215	211	91	153
October, 1960—March, 1961 ..	Nil	18	56	78	730

TABLE II
Break-up of Imports
(In crores of rupees)

	1952-53		1955		1959		1960 (Jan-June)	
		%		%		%		%
Capital goods ..	88.41	12.50	100	15	128.46	14.42	65.27	14.31
Industrial goods ..	325.50	46.50	373	55	545.18	61.45	312.84	68.95
Consumer goods ..	288.08	41.00	200	30	213.74	24.13	76.36	16.74
Total ..	702.00	100	673	100	887.38	100	454.47	100

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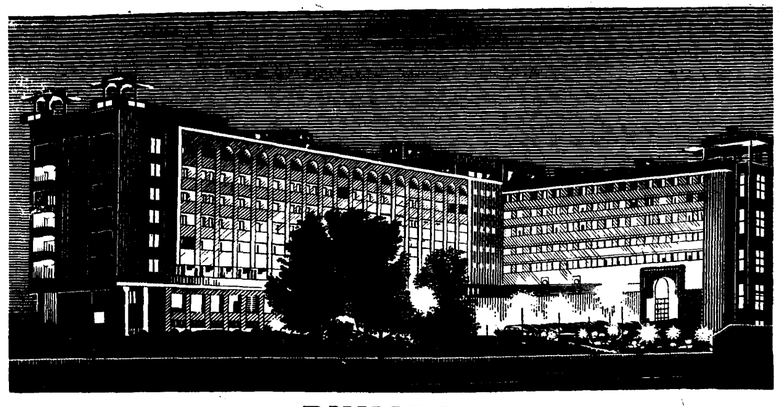
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FOREIGN TRADE UNDER FIVE-YEAR PLANS

AIMS AND ACHIEVEMENTS

By K. MURTI

THE first Five-year Plan ended in March 1956. The second Five-year Plan will come to an end in a few months. The draft outline of the third Five-year Plan Report is now before the public. As truly stated in the introduction to the Report of the second Plan, the beginning and the end of a five-year Plan are vital dates in the nation's history and each Five-year Plan is both an assessment of the past and a call for the future.

The commercial policy, as enunciated in the Report of the first Plan, has been put to practical action for nearly a decade now. In defining India's commercial policy, the Planning Commission has laid down the following five guiding principles to be followed in the context of planning:

(*a*) It must help to fulfil the production and consumption targets in the Plan;

(*b*) the accent of policy throughout must be on maintaining a high level of exports;

(*c*) the deficits in balance of payments must be kept within the foreign exchange resources at the disposal of the country in any given period;

(*d*) the composition of exports as well as imports must, as far as possible, fit in with the fiscal and price policies which have to be followed for the implementation of the Plan; and

(*e*) there must be, to the extent practicable, a measure of continuity in policy, so that trade relations with other countries in respect of exports and imports and the plans of domestic industry and trade are not frequently disturbed.

Before making an assessment of the aims and achievements of India's foreign trade during the two Five-year Plan periods—the assessment is all the more important particularly when the country is at the threshold of the third Plan—a brief review of the developments that had taken place in India's foreign trade in volume, composition and direction soon after the Second World War and partition of the country is worth undertaking, especially when the far-reaching and significant changes occurring as a result of the World War and partition had had their impact on the future course of India's foreign trade.

During the pre-war period 1938-39, India's total trade stood at Rs. 320 crores. Between 1938-39 and the post-partition year 1948-49, total trade went up threefold in value. On the eve of the first Plan, it was four times the pre-war trade. The balance of trade which used to be favourable to India in the pre-war and war years turned adverse thereafter. Partition of the country resulted in India becoming deficit in the supplies of raw cotton, raw jute and foodgrains. The deficits continued to haunt the Indian economy and, on the eve of the first Plan, India was forced to import from abroad about Rs. 70 crores worth of raw jute, over Rs. 100 crores of raw cotton and Rs. 200 crores of foodgrains. Besides, a large majority of machines which worked to capacity to satisfy war-time demands had become worn-out and outlived their usefulness.

In the early post-war years, machinery could not be procured owing to difficult supply position abroad. Soon after there was, however, a substantial increase in the arrivals of machinery from abroad. In the pre-war and post-war years, India's export trade was heavily loaded with raw materials and semi-manufactured goods, in addition to tea, cotton and jute manufactures. Table I showing break up of imports and exports according to groups as also their share to total gives a vivid picture of the pattern of trade in the pre-war, post-war, post-partition and pre-Plan periods.

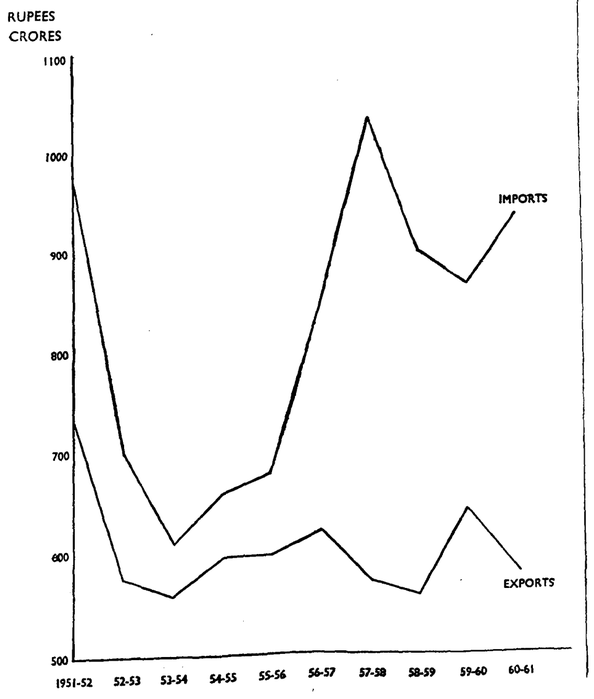
Owing to historical reasons, more than a fourth of India's trade has been with the United Kingdom which has always been the largest supplier to and the best customer of India, followed by the United States of America. In the pre-war and pre-Plan years, these two countries together accounted for over 40 per cent. of India's imports and exports. Analysing currency-wise distribution of trade in the pre-Plan years, generally more than half of the Indian imports arrived from sterling area countries. Except 1950-51, when the share was 59 per cent., the exports of Indian merchandise to sterling area were just about 50 per cent. of total Indian exports. Dollar area imports, which were 7 per cent. in 1938-39, steadily increased to 25 per cent. in the post-war years. Likewise, exports to the dollar area which were 13 per cent. in 1938-39 constituted 26 per cent. of Indian exports in 1950-51. Countries in Europe, particularly those in the present organisation of European Economic Co-operation, were supplying as much as 17 per cent. of imports to India in the pre-war period. No significant trade in the immediate post-war years could, however, take place, with the European countries ravaged by war and its aftermath.

When the commercial policy to be followed during the first Plan was formulated, the changes that had happened in the structure of India's trade during the war and post-war years and as a result of partition of the country, the contraction in the volume of exports, the increased dependence on the imports of cereals and raw materials and the large lag to be made up in the replacement of worn-out and outmoded machinery and capital equipment were no doubt kept in the forefront by the planners. It was highly imperative that higher targets were to be fixed for raw jute and cotton production in the first Plan in order to reduce their imports to the minimum and to increase the export surpluses of jute and cotton manufactures. It was also visualised that, as new lines of manufacturing industries developed as a result of industrialisation, the trend already noticeable in the post-war years for the exports of light engineering goods to countries in South-East Asia would be strengthened.

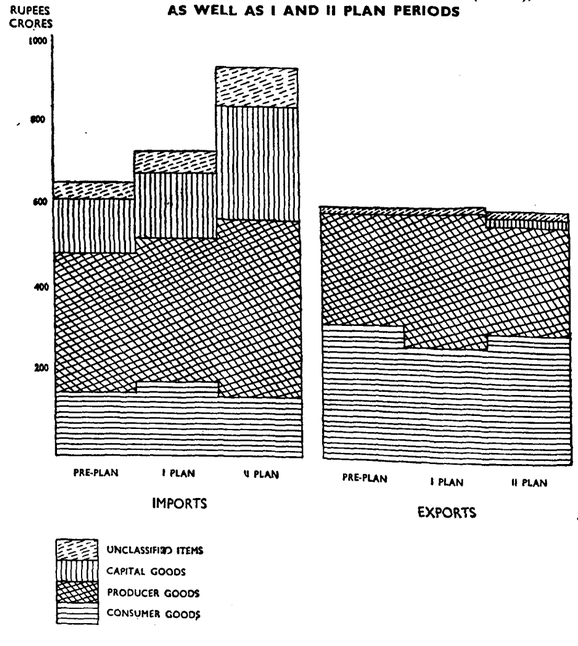
There was much backlog to be made up both in imports and exports when the first Plan was launched. To a great extent, the first Plan was designed to meet some of the problems created by the world war and partition. The Plan envisaged two forces at work as far as foreign trade was concerned one tending to lessen the pressure on foreign exchange and the other tending to increase it. Both efforts were expected to follow from the Plan, the first from the production targets and the second from the consumption and investment targets. The volume of India's exports was expected to go up by nearly 30 per cent. by 1955–56, as compared with 1948-49 and by over 10 per cent., as compared with 1950-51. The volume of imports for 1955 56 was to increase by 3 per cent., as compared with 1948-49 when the Open General Licence was in full operation and by 18 per cent. more than 1950-51. The increase in imports was relatively to be smaller, as it was envisaged to exercise vigorous import control measures on consumer goods. It was, however, assumed that about three million tons of foodgrains were necessarily to be imported annually during the first Plan period.

The second Plan is more ambitious in every respect. The emphasis

INDIA'S IMPORTS AND EXPORTS DURING I AND II PLAN PERIODS



FATTERN OF INDIA'S TRADE DURING PRE-PLAN (1951-52), AS WELL AS I AND II PLAN PERIODS



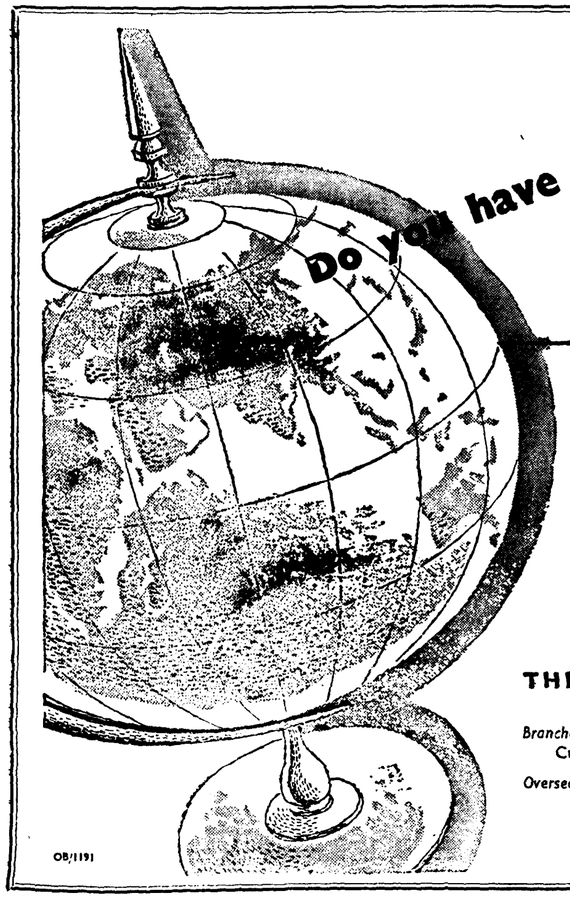




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in the Plan on the development of basic industries has entailed large-scale imports of capital goods. Large imports were also expected in metals, especially iron and steel and non-ferrous metals. In view of the increasing population and rising incomes and of the stocks of foodgrains held by the Government being low, an import of six million tons was programmed for the second Plan period. The planners realised the hard fact that India's exports were concentrated in a few traditional items which have been facing increasingly acute competition in the international markets. Nevertheless, they conceded that, while every effort should be made to promote exports of new items and to develop and diversify markets for India's major exports, an increase would be possible only after industrialisation had made some headway.

The planners aimed at a target of Rs. 574 crores of imports and Rs. 547 crores of exports at the end of the first Plan period. A higher import of Rs. 786 crores and export of Rs. 615 crores at the end of 1960-61 were anticipated when the second Plan was formulated. Thus, the increase envisaged at the end of the second Plan works out to 37 per cent. in imports and 12.4 per cent. in exports as compared with targeted imports and exports at the end of the first Plan. As against the anticipated trade, the actual imports amounted to Rs. 3,614 crores and exports Rs. 3,006 crores during the entire first Plan period. On an average, they were valued at Rs. 723 crores and Rs. 601 crores, respectively. As regards the actual performance during the second Plan period, trade figures are available for four years and four months (1956-57 to April-July 1960). Assuming the general trade pattern for the rest of the eight months to remain unchanged, the import and export figures have been projected. Thus, in the succeeding paragraphs, the projected figures in respect of total trade, composition and direction have been taken to be the actual performance during the second Plan period. The projected figures show that the total trade in the second Plan period is likely to reach Rs. 4,595 crores of imports and Rs. 2,945 crores of exports, yielding an annual average of Rs. 919 crores of imports and Rs. 589 crores of exports. Table II gives the comparative imports and exports during the two Plan periods, together with the estimated level of imports and exports aimed at by the Planning Commission.

It may be observed from the above figures that, while, in the last year of the first Plan, the actual imports exceeded the planners' anticipation by as much as 18 per cent. and exports by 8 per cent., during the second Plan period the imports are not likely to exceed the estimates by more than 6 per cent. Although the export performance in the second Plan period is likely to fall short of the expectation by a small extent, it should be understood that the target of exports was itself placed at a low figure. To that extent, the planners had a clear perception of the inelasticity in Indian exports.

In the first Plan, it was found difficult to fix commoditywise targets of imports. The availability of foreign exchange was the *sine qua non* in programming imports; and this would naturally result in the restriction of imports to commodities with the highest priority. While manufactured goods like capital equipment, heavy durables and metals were expected to increase in imports, the import of producer goods was programmed to be cut down in order to reduce dependence on imported agricultural raw materials. In respect of exports, targets in the shape of annual rate of exports at the end of the first Plan period were fixed for some principal export items like cotton piecegoods (1,000 million yards), jute yarns and manufactures (10 lakh tons), manganese ore (10 lakh tons), oil (41 million gallons), coal and coke (3 million tons), black pepper (3 lakh cwts.), tobacco (96 million lbs.), coir manufactures (17 lakh cwts.) and woollen manufactures (16 million lbs.). Some commodities such as tea, cotton waste and lac were expected to remain almost at the same level either as a result of production remaining more or less constant or domestic demand increasing. However, the actual exports of these commodities, except vegetable non-essential oils, lagged behind the annual rate of exports expected at the end of the Plan period (1955-56).

The second Plan has, however, fixed targets for some of the principal commodities entering India's foreign trade and it is, therefore, possible to find out how far the anticipations of the planners have been realised. Apropos the aim of the framers of the second Plan, in developing and expanding basic industries, machinery, iron and steel and oils have been given the pride of place in the targets fixed for various commodities to be imported during the second Plan period. Table III gives the targets of imports according to commodities together with actual imports in the second Plan period as also average annual imports in the first Plan period. It may be seen from this table that machinery, iron and steel and other metals which accounted for 29.4 per cent. of total imports in the first Plan period, went upto 42.6 per cent. in the second Plan period, though the share of their imports was below the target fixed at 49.5 per cent. of the total imports. The target of foodgrains was fixed at a low figure of 5.5 per cent. of total imports in the second Plan in anticipation of higher internal production. The actual imports, however, belied the anticipation, having amounted, on an average, to Rs. 84 crores or 9 per cent. of the total imports. Among other unspecified commodities, copra, wool tops, fertilisers and rubber and rubber manufactures have shown substantial increases in the second Plan period as compared with their imports in the first Plan.

The break up of exports reveals the difficulties faced by India even in maintaining the level of exports, both quantity and value, of some of the traditional export items. In spite of the vigorous efforts taken to promote exports of new items, the cumulative effect of the export performance shows that the development of their exports is still in the formative stage. Details are given in Table IV.

Analysing the performance of the principal export products in the second Plan period as compared with the first Plan period, it is noticed that, by averaging the figures on an annual basis, the exports of tea, dressed skins, raw wool and iron ore have increased both in volume and value. Higher prices fetched by these products have resulted in larger earnings. Though the quantum of exports have suffered a decline, the higher average price for manganese ore has pushed up the total value for its exports. The setback in prices brought down the total earnings from pepper, jute manufactures and cotton raw and manufactures, notwithstanding an increase in the volume of their despatches. The fall in the average declared value of their exports has been quite substantial and works out to nearly 70 per cent. in pepper, 33 per cent. in jute fabrics, 30 per cent. in jute bags, 22 per cent. in cotton raw and 17 per cent. in cotton manufactures as compared with the average declared value of exports in the first Plan period. To maintain exports of cashew kernel, mica and coir yarn at a higher level and at the same time to obtain larger foreign exchange, a larger quantum of these commodities was shipped at a price lower than the prices obtained in the first Plan period. The lower prices for dressed hides and cotton waste and slightly higher price for coal have adversely affected the volume of their exports and their foreign exchange earnings.

By arranging the commodities entering India's foreign trade under the three economic groups, namely, consumer goods, producer goods and capital goods, some idea may be obtained of the progress achieved in the Plan periods towards the process of industrialisation of the country. In arranging the groups, care has been taken to include only common items of imports and exports in the Plan periods and in the pre-Plan year 1950-51. Table V shows the position.

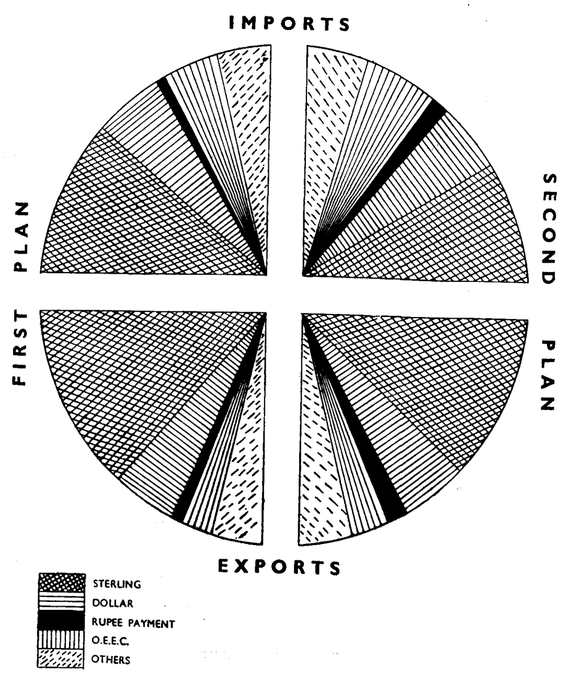
Basic industries such as steel, fuel and power and machine building have to be set up on a large-scale as a major condition of rapid economic development. The result of the effort to develop the basic and heavy industries and machine building capacity is larger imports of capital goods in the second Plan period. While possibilities of increasing foreign exchange earnings from the traditional exports are beset with almost insurmountable odds, a developing economy needs specialised capital equipment, machinery, metals, mineral oils and industrial raw materials for which it may not be able to pay from its own export earnings and this results in the widening of the unfavourable balance of trade. In order to narrow down the deficit, imports of non-essential consumer goods have been stringently cut down.

In view of her historical association, a sizable portion of India's foreign trade is with the sterling area countries. In fact, the way in which it has developed and its present structure have been largely conditioned by India having once formed part of the British Empire. Before the war, India used to have a surplus with the British Empire. For instance, as against the Empire imports valued at Rs. 88.6 crores in 1938-39, exports amounted to Rs. 90.3 crores to the Empire which, with the exception of Canada, formed the sterling area. A substantial portion of Indian exports has always gone to the sterling area, and India has always bought a sizable proportion of her imports from that area. Total imports from the sterling area amounted to Rs. 1,556 crores during the entire first Plan period and may record a decline in the current Plan period when they are expected to be around Rs. 1,373 crores. Exports are also likely to decline substantially from Rs. 1,627 crores in the first Plan period to Rs. 1,236 crores in the second Plan period. In terms of average annual trade, value of imports may be placed at Rs. 317 crores in the current Plan period, as against Rs. 311 crores in the first Plan. During the above periods, export figures are Rs. 326 crores and Rs. 285 crores respectively. The balance of trade which was favourable to India in the first Plan will turn adverse to the extent of Rs. 32 crores.

Of the sterling area countries, the United Kingdom is by far the most important and accounts for about two-thirds of the total sterling area trade with India. India's total trade with the U.K. amounted to Rs. 781 crores of imports and Rs. 820 crores of exports, leaving a surplus of Rs. 39 crores, during the entire first Plan period. During the second Plan period, imports from the U.K. may go upto Rs. 980 crores and exports to Rs. 835 crores, resulting in a deficit of Rs. 145 crores. In other words, Rs. 156 crores of imports and Rs. 164 crores of exports were recorded on an average in the first Plan period, whereas, in the current Plan period, they will work out to Rs. 196 crores and Rs. 167 crores, respectively.

Although sterling area, spearheaded by the U.K., continues to play a vital part in India's foreign trade, India's large-scale requirement of plant, machinery, technical training facilities and know-how for the pro-

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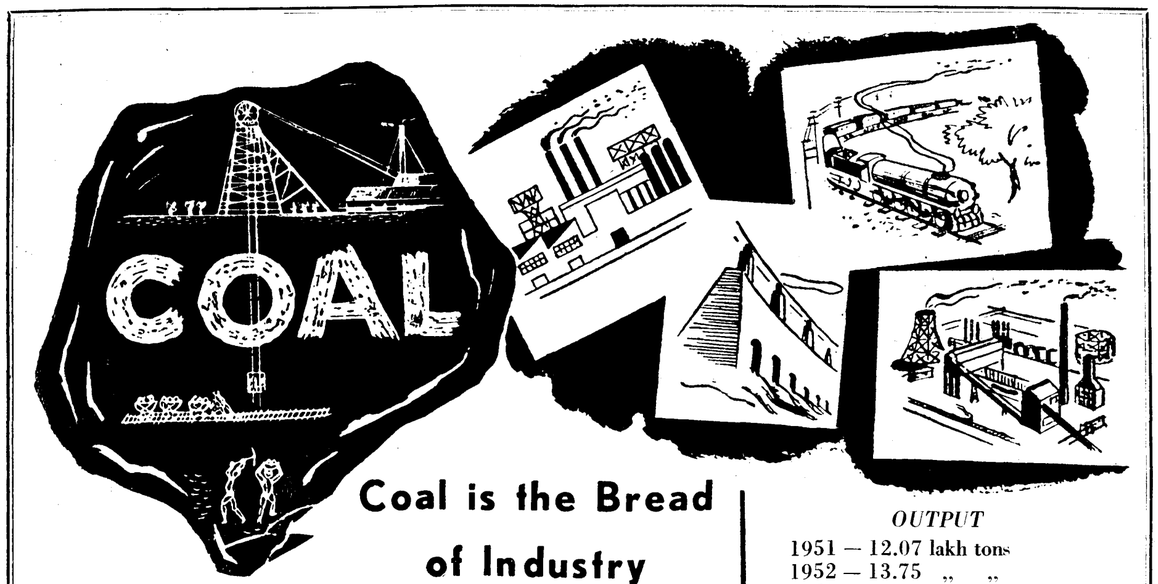
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gress in economic development during the second Plan period have led her to look more and more to other industrially advanced countries like the U.S.A. and those in the Organisation of European Economic Co-operation for substantial assistance and co-operation. The result is that imports from the dollar area which were valued at Rs. 822 crores in the entire first Plan period may be around Rs. 905 crores in the current Plan period. On the other hand, exports to dollar area are facing a decline. As against Rs. 648 crores in the first Plan period, exports may come down to Rs. 600 crores in the current Plan period. Thus, the dollar area deficit will widen from Rs. 174 crores to Rs. 305 crores between the two Plan periods.

Among the dollar area countries, India's trade with the U.S.A. is most noteworthy. While India's adverse balance with the U.S.A. was to the extent of Rs. 216 crores in the first Plan period, the imports and exports having amounted to Rs. 728 crores and Rs. 512 crores, respectively, the adverse balance may increase to Rs. 345 crores in the current Plan period, when imports from the U.S.A. are likely to be Rs. 805 crores and exports thereto Rs. 460 crores.

Imports from West Germany were by far the largest of the O.E.E.C. countries and constitute over half of imports from O.E.E.C. India's trade with her was valued at Rs. 185 crores of imports and Rs. 64 crores of exports, with an adverse balance of Rs. 121 crores, in the first Plan period. In the current Plan period, the trade is likely to increase to Rs. 535 crores of imports and Rs. 85 crores of exports, resulting in a deficit of Rs. 450 crores. India's trade with rupee payment countries which include the U.S.S.R., Soviet bloc nations in Europe, China, etc., is more or less balanced. While in the first Plan period, arrivals from these countries amounted to Rs. 61 crores and despatches to them Rs. 56 crores, leaving a small deficit of Rs. 5 crores, in the current Plan both the imports and exports at Rs. 195 crores each will balance each other.

In the foregoing assessment of India's foreign trade during the two Plan periods, it has been brought home that, while India's imports have been so geared as to meet the requirements of the country's economic development, the exports have been greatly lagging behind, with the result that the adverse trade balance which amounted to Rs. 82 crores in the closing year of the first Plan may widen to Rs. 353 crores in the last year of the current Plan.

It is a well-known truism that a country's exports pay for its imports. Only on the basis of a steadily expanding volume of exports can a growing volume of imports be financed. The accent of India's commercial policy has throughout been of maintaining a high level of exports. With this end in view, various promotional measures have been undertaken for increasing exports of traditional and non-traditional export items.

In order to increase the competitive capacity of Indian products in the world markets, exporters are enabled to obtain drawback of import duties and rebate of excise duties levied on raw material components used in the manufacture of finished goods exported. Rules have been framed for manufacture in bond of articles made of ingredients subject either to import or excise duty. In such cases, no duty is paid in the initial stages but stocking of raw materials and finished products, processing and actual exports are carried out under customs or Central excise supervision. Further, with a view to encouraging a continuous flow of exports of Indian goods manufactured out of imported raw materials, an export promotion scheme has been introduced by Government under which import licences for raw materials are given to manufacturers against their exports, subject to the fulfilment of certain conditions.

In addition to relaxing or removing export control on many items, some commodities which were on the banned list have been allowed for export. In pursuance of the recommendations made by the Export Credit Guarantee Committee, the Export Risks Insurance Corporation has recently been set up. The Corporation offers facilities to exporters to insure risks arising in the course of export trade which are not normally covered by the commercial insurance companies. With effect from December 1958, the railway authorities have been giving rebates in the freight on commodities such as dry cell batteries, motor vehicle batteries, oil pressure pumps, steel files, bicycles, textile machinery and parts, wood screws, fruits and vegetable preserves, etc., when these are booked to port stations for onward transhipment.

Export Promotion Councils have been set up for some of the commodities entering India's export trade. These councils are financed from subscriptions and donations from members and from grants-in-aid from Government equal to double the contribution by the industry and exporters. The principal activities of these councils, *inter alia*, are to undertake market studies and conduct surveys in foreign countries, evolve schemes of quality control for the purpose of export, do propaganda abroad, participate in fairs and exhibitions, sponsor trade missions and delegations, disseminate and collect information regarding export of the respective commodities and furnish information to manufacturers and exporters in regard to the possibilities of exports and enquire into complaints received from foreign importers against exporters.

These export promotion measures, by way of institutional arrangements, fiscal and other incentives, special facilities to exporters, etc., have been put to practical action during the last few years. Some of the export promotion councils, which have had some years of existence and experience, are concerned with the promotion and expansion of India's traditional items of exports. Some councils have done useful work, but, in view of the fact that overall exports of the country have not gone up, it is worthwhile undertaking an assessment of the actual work done by these councils since their inception and reasons for their failure, if any, to promote exports, both in volume and value, as also in the direction of diversifying markets for the products under their charge. In this connection, the relevant commodity's export performance in all its aspects before and after the councils have been set up needs to be gone into in detail. If the exports are not to lag behind even the modest expectation of the planners in the third Plan period, a reorientation of the activities of the councils will, perhaps, be called for. This will have to be undertaken after the findings of the assessment of the work done by the councils are made available.

In regard to various fiscal reliefs given, it may be too early to say if the schemes have proved a success or otherwise. After a year or two, if exports do not improve, it would be advisable to undertake a critical examination of the incentive schemes to find out the reasons for the failure of the export drive and, if need be, the schemes should be modified, on the basis of results obtained from such an appraisal.

TABLE I
(In crores of rupees)

Commodity groups	Imports into India				Exports from India			
	1938-39	1946-47	1948-49	1951-52	1938-39	1946-47	1948-49	1951-52
Food, drink and tobacco	24 0 (16.0)	38.7 (13.0)	127.1 (23.0)	135.7 (21.0)	39.1 (24.0)	58.2 (20.0)	92.3 (22.0)	142.4 (24.0)
Raw materials and semi-manufactures	33 2 (22.0)	75 0 (26.0)	127.6 (23.0)	222.5 (34.0)	73 3 (45.0)	92 2 (30.0)	97.9 (23.0)	128.3 (22.0)
Manufactured articles	92 8 (61.0)	167 5 (58.0)	297.9 (53.0)	259.7 (40.0)	47 6 (29.0)	142 8 (48.0)	229.1 (54.0)	314.1 (53.0)
Total (including other items)	152 4 (100.0)	288 4 (100.0)	557.2 (100.0)	650.8 (100.0)	162 8 (100.0)	297.7 (100.0)	421.0 (100.0)	596.1 (100.0)

N.B.—Figures in brackets are percentage shares to total imports or exports as the case may be.

TABLE II
(In crores of rupees)

	Estimated level of			Actual performance of		
	Imports	Exports	Balance of trade	Imports	Exports	Balance of trade†
1st Plan :						
1955-56	574	547	— 27	679	591	— 82
Total for the Plan period	..	..	..	3,614	3,006	— 583
Average of five years	..	..	..	723	601	— 117
2nd Plan :						
1956-57	783	573	— 210	849	614	— 229
1957-58	886	583	— 303	1,035	567	— 462
1958-59	990	592	— 398	903	551	— 345
1959-60	895	602	— 293	869	632	— 227
1960-61	786	615	— 171	327*	189*	— 133
Total for the Plan period	4,340	2,965	— 1,375	4,595	2,945	—1,610
Average of five years	868	593	— 275	919	589	— 322

* Relating to April-July 1960.
† After taking into account re-exports.

TABLE III
(In crores of rupees)

Imports	Average of five years (1951-52 to 1955-56)	Target annual average of second Plan	Second Plan Actual imports (Projected figures) (Annual average)
Machinery	152	300	266
Iron and steel and other metals	61	130	155
Grain, pulse and flour	107	48	84
Sugar	9	7	N
Oils	74	82	79
Chemicals, drugs and medicines	31	32	45
Dyes and colours	17	17	12
Paper, pasteboards and stationery	14	11	12
Raw cotton	77	54	45
Raw jute	26	18	6
Others	155	169	215
Total	723	868	919

N—Negligible.

TABLE IV
(In crores of rupees)

Exports	Average of five years (1951-52 to 1955-56)	Target annual average of second Plan	Second Plan Actual exports (Projected figures) (Annual average)
Tea	107	127	124
Jute yarn and manufactures	151	122	112
Cotton yarn and manufactures	66	75	63
Oils (excluding mineral oils)	24	22	15
Tobacco	15	15	15
Hides, skins and leather (raw, tanned and dressed)	30	28	32
Cotton, raw and waste	26	22	17
Metallic ore, scrap iron and steel	28	23	45
Coal and coke	7	5	5
Chemicals, drugs and medicines	1	5	2
Cutlery, hardware, vehicles, electric goods, apparatus and machinery	6	4	6
Others	140	145	153
Total	601	593	589

TABLE V
(In crores of rupees)

Groups	Imports			Exports		
	Pre-Plan (1950-51)	First Plan (Annual average)	Second Plan (Annual average)	Pre-Plan (1950-51)	First Plan (Annual average)	Second Plan (Annual average)
Consumer goods	153 (24)	175 (24)	141 (15)	315 (53)	267 (44)	290 (49)
Producer goods	333 (51)	342 (47)	419 (46)	269 (45)	315 (52)	266 (45)
Capital goods	132 (20)	152 (21)	266 (29)	1 (0.1)	2 (0.3)	2 (0.3)
Unclassified items	33 (5)	54 (8)	93 (10)	11 (1.9)	17 (3.7)	31 (5.7)
Total	651 (100)	723 (100)	919 (100)	596 (100)	601 (100)	589 (100)

Note : Figures in brackets are percentage shares to total.

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UNDER ... TO GOVERNMENT
16 JAN 1961
PUBLIC DEPARTMENT

SHIPPING POLICY

(*Concluded from page 130*)

the world market. How can Indian shipping hold its own in these circumstances—not to say anything about its ability for development and further expansion?

New Milestones

(A) *Shipping Development Fund*: Mr. Shastri announced, in December 1957, that, with the concurrence of the Planning Commission, the Government of India has taken a firm decision to establish a non-lapsable Shipping Development Fund. This fund was to be built up by annual contributions from the Consolidated Fund of India in such amount as may be determined by Government from time to time. Further, all repayments of loans so far advanced to Indian shipping companies would be credited to the fund instead of being merged with the general revenues. All payments by way of interest on the aforesaid loans would also be similarly credited to the fund. The decision, in accordance with this announcement, was incorporated in the new Merchant Shipping Act passed in 1958. It is now administered by a committee, called the Shipping Development Fund Committee. The main object of the fund is to "grant loans and financial assistance in any other form" to Indian shipping companies.

This is a step in the right direction. The granting of loans has now been placed on a statutory basis and whatever amount may be returned either by way of interest or by way of repayments of the loans will be credited to the fund itself. It is reliably understood that the total amount that would be available from this fund by the end of the second Plan would be Rs. 14.91 crores, of which Rs. 2.87 crores have already been granted as loans—Rs. 2.35 crores to the two shipping corporations in the public sector and Rs. 52 lakhs to the two Indian shipping companies in the private sector. It is some satisfaction that, in view of the constitution of this fund, in addition to Rs. 37 crores allotted by the Planning Commission, a further sum of Rs. 9.25 crores will also be available for the acquisition of additional tonnage during the second Plan period. While we are all grateful to the Government for this generous gesture, it has to be recognised that the policy of giving loans for financing the purchase of ships is an important feature in the international world and that the terms and conditions under which loans are granted to Indian shipping are not as generous as they are in the United States and the United Kingdom.

(B) *The passing of the Merchant Shipping Act, 1958*: It is well known that, till India became independent, she did not enjoy unrestricted freedom to enact laws on matters relating to merchant shipping. Indian shipping was very largely governed by the Acts passed by the British Parliament. Even Indian ships had to be registered under the British Shipping Act. A time had, therefore, come under Free India not only to consolidate the various laws but also to undertake a comprehensive review of its various provisions. It was quite essential that India should incorporate in the new Act such provisions as would enable her to build up her own navy in her own way and to secure such rights and facilities for her sea personnel as would conduce to their social dignity and economic well-being. For the first time, the National Shipping Policy found expression in a statute passed by the Indian Parliament. It is remarked in the preamble that the new Act is

"to foster the development and ensure the efficient maintenance of an Indian mercantile marine in a manner best suited to serve the national interests and for that purpose to establish a National Shipping Board and a Shipping Development Fund, to provide for the registration of Indian ships and generally to amend and consolidate the law relating to merchant shipping."

Mr. Raj Bahadur, Minister of Shipping, remarked in the Lok Sabha that

"Even today, we have got two stalwarts with us. One is Shri M. A. Master and the other is Shri S. N. Haji. All these people have all these years, from inside the legislature and outside, fought the battle of Indian shipping. It may well be said that this Bill is a sort of symbol of the renaissance of Indian shipping. From this, we want to go ahead on the onward march of progress."

We hope that the Government of independent India would do everything to ensure the fulfilment of the expectations which they have created in the country for the development of an Indian Merchant Navy.

(C) *Constitution of the National Shipping Board*: The constitution of a National Shipping Board will always remain as a highly encouraging landmark in the history of Indian shipping. The Minister of Transport described the Shipping Board as the highest policy-making body relating to shipping whose proposals would always receive the closest attention of Government. It is significant that the Act lays down that the Board shall advise (mark the words "shall advise") the Central Government on matters relating to Indian shipping, including the development thereof. A statutory board, therefore, now exists which can on its own initiative advise the Government as to the manner in which they should build up a Merchant Navy for this country. A number of important questions has already been dealt with by the Board, amongst which its recommendations in connection with the target for the third Plan have attracted country-wide attention. We shall have to refer to that matter in a later paragraph.

(D) *Widening the scope and the base of training for the sea-personnel*: The country is indebted to the Government for starting a Marine Engineering College, where comprehensive training has been given to those who wish to go as engineer officers on sea. Three new institutions have been brought into existence for imparting pre-sea training to Indian seamen. These training ships enable the Government to introduce fresh blood in the Indian seafarers who take to sea life. A Nautical College has also been established in Bombay. Such a college did not exist in the past. Executive officers and engineer officers desirous of sitting for their examinations for obtaining their Certificates of Competency are thus able to equip themselves with both theoretical and practical knowledge for passing higher examinations. It is a matter of vital importance that our ships should be manned by our own countrymen. While it is essential to do so for the economy of the country, it is vital and obligatory to achieve that end for promoting and preserving our security. As Indian shipping further expands, it will become necessary to have another training ship and perhaps, a second Marine Engineering Training College.

Expectations and Achievements

(i) *Expansion of tonnage*: The National Shipping Policy laid down that India should build up by 1952 or at least by 1954 a fleet of 2 million tons. By March 1961, we are expected to reach only 9 lakh tons. The gap is indeed a very wide one.

The position of Indian shipping in world tonnage has hardly improved. All the three war-shattered countries, namely, Japan, Italy and Germany, have made rapid strides in reconstructing their merchant navies and expanding them even beyond pre-war level. According to Lloyds Register of Shipping, the tonnage of ships owned by India of 100 tons gross and upwards has gone up from 0.56 of 1 per cent. in 1955 to only 0.62 of 1 per cent. in 1959. The tonnage owned by Germany went up from 2.6 to 3.5 per cent., that owned by Italy rose from 3.8 to 4.18 per cent. and that belonging to Japan witnessed a rise of 3.7 to 5 per cent. during the same period. India has, therefore, to make a long leeway before she can attain her proper position in the maritime world.

(ii) *Share of overseas trades*: The aim of the Shipping Policy announced in 1947 was that Indian ships should carry by 1954 at least 50 per cent. of India's overseas trades. With the advent of planned economy, this target was drastically reduced by the Planning Commission in the second Plan. They wanted Indian ships to carry only 15 per cent. of India's international trades by March 1961. It is unfortunate that, though the Planning Commission had drastically reduced the share of trade that Indian ships should carry from 50 to 15 per cent., according to the latest official figures, Indian ships carried only 7.89 per cent. in 1957-58 and 8.98 per cent. in 1958-59. If Indian ships have to maintain even that small percentage in 1959-60, they would have to carry at least 500,000 deadweight tons more in that year. The latest information is that Indian ships did not maintain even that small percentage in that year. It is sad to reflect that the expectations raised by the announcement of the National Shipping Policy in 1947 are not being realised. Our Ministers often draw our attention to the figures in regard to the expansion of Indian tonnage. Let not these figures mislead us. The real progress of Indian shipping can only be judged by the progressive increase in the quantity of our overseas cargo which we carry in Indian bottoms. Judged by that test, Indian shipping has not made even the very moderate progress which the Planning Commission laid down for it. It has reached only a little over half of the very moderate figure of 15 per cent. mentioned by them for the second Plan. Unsatisfactory as that position is, the broad question whether Indian shipping will be able to carry even that small percentage of India's overseas trades in the future has been causing us serious concern.

National Shipping Board Ignored

Mr. Patil, when he was the Minister of Transport, stated that India should reach at least 15 lakh tons by the end of the third Plan. That India's tonnage by 1966 should reach a higher figure than 15 lakh tons and not a lower one was strongly emphasised in the Lok Sabha. If India has to implement effectively her Shipping Policy, she cannot ignore the substantial rise in her overseas trades. These trades reached the figure of 25 million deadweight tons in 1959-60. During the third Plan period, there will be a very substantial rise in imports of foodgrains and exports of iron ore. Official estimates show that foodgrain imports will be 5 million tons per annum, during the third Plan period, against the average of 3 million tons during the years 1956-57 to 1958-59. There will thus be an increase in the import of foodgrains alone to the tune of at least 2 million tons per year. As regards the exports of iron ore, the Intermediate Ports Development Committee have said that—"there is a reasonable prospect of 130 lakh tons of iron ore export a year by 1966-67."

India will, therefore, be exporting, on an average, at least 10 million tons of iron ore per year during the next few years. India's overseas trades would, therefore, witness a big rise from 25 million tons in 1959-60 to about 37 million tons by 1965-66. If Indian ships have, therefore, to maintain even the very low figure of the carriage of only 8.98 per cent. of her overseas trades, which her ships, according to official figures, carried in 1958-59, India would need additional ships which could carry at least an additional cargo of 13 lakh tons over and above what they carried in 1958-59. If India, however, has to reach even the drastically reduced percentage of 15, as required by the Planning Commission, against the target of the universally recognised 50 per cent. of her trades in international waters, she would need an additional fleet to carry an additional cargo of about 35 lakh tons or, say 55, lakhs deadweight tons in all by the end of the third Plan. These are the facts and problems which cannot be ignored in fixing the target for the third Plan.

Despite the urgent need and unquestionable justification for the rapid and very substantial expansion of Indian tonnage to carry the overseas trades of India in Indian bottoms which have grown and which are expected to grow to a very large figure in the coming years, the National Shipping Board, in a spirit of realism and after weighing all aspects of India's planned economy, placed a very reasonable target of 14.22 lakh tons to be achieved by the end of the Plan and recommended that a sum of Rs. 104 crores should be allotted by the Planning Commission for that purpose. Although it was recognised in all responsible quarters that the National Shipping Board would become an organisation which would make the highest policy for shipping and which would, as a rule, be accepted by the Government, it is unfortunate that their recommendations, both as regards target and finance, made in a spirit of realism and constructive approach, have been completely ignored by the Planning Commission. Well may Mr. G. L. Mehta, Chairman of the National Shipping Board, wonder "whether there is a real awareness of the importance of shipping to our developing economy." This latest development brings home the sad truth that neither the Ministry of Transport nor the Planning Commission is prepared to stand by the Shipping Policy of the Government which raised such high hopes and expectations in the country for building up rapidly a balanced merchant navy for India when it was announced in 1947.

Fundamental Changes

In addition to the difficulties lying in the path of Indian shipping to which I have referred above, it is necessary to point out, as briefly as possible, some of the recent fundamental changes that have been made in the Shipping Policy of the country to give a clear picture of what the existing position is.

(a) *Burial of the Policy of mixed Economy*: With the starting of the Western Shipping Corporation, cent-per-cent owned, controlled and managed by the Government, the policy of mixed economy has now been given a decent burial. No one will shed any tears over the disappearance of a policy which did not make any appeal generally to the Indian shipowners.

(b) *Promise about no inroad from the public sector ignored*: Although Mr. Shastri promised that shipping in the public sector should not run in competition with private shipping companies on routes on which they have established themselves, the present Transport Minister has changed that policy and has already taken effective steps to enable the public sector to establish its sway in services built up at considerable sacrifices by the private sector. At the same time, the private sector will not be allowed to run its ships in services which the public sector may have initiated such as the passenger service between India and East Africa and India and Malaya.

(c) *Tanker trade—Monopoly of the public sector*: Tanker trade has now become the monopoly of the public sector. It is a trade where both cargo and profits are assured. It is the private sector that took the lead in running the tanker service. It is now ousted from that field. The Transport Minister recently remarked that the tanker trade should be left exclusively to the public sector. He further admonished the private sector by asking it to "leave this field completely to the public sector without demur." Expression of one's opinion and equality of opportunities are some of the greatest assets of true democracy. It is, therefore, surprising that a new reactionary feature should have been incorporated in our shipping policy not only by compelling the private sector to go out of the tanker service, but also by calling upon it not to whisper a word about its feelings in the matter.

(d) *Public sector now to play the main role in the expansion of shipping*: The Estimates Committee has stated, in their thirtieth report, that the public sector must play the main role in the expansion of shipping hereafter. There is no justification for this move on the part of the Estimates Committee. It is the private sector that has built up shipping upto now. From the beginning of 1946 upto the end of November 1959, out of a total investment of a little over Rs. 105 crores in the purchase or construction of ships, more than Rs. 91 crores were invested by the private sector. Again, out of these Rs. 91 crores, Rs. 54 crores were raised by the private sector from its own resources. This new change seems to have been made purely on ideological considerations. It is certainly quite unfair to the private sector which has played such a glorious part in building up shipping.

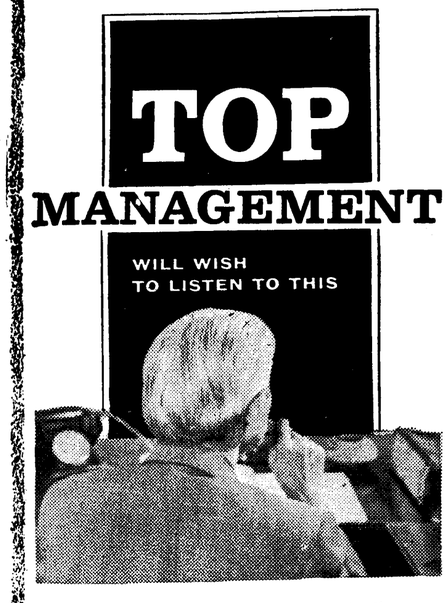
(e) *New concept of Flag discrimination*: With a view to justifying the payment of only the lowest market tramp rates to the ships of the private sector bringing foodgrains and other cargo on account of Government, a new theory is now propounded by the present Transport Minister that granting of a rate other than the lowest market tramp rates to Indian ships would constitute an act of flag discrimination. He has urged the shipowners to acquire as many ships as they can for lifting these foodgrains. Shipowners—whether they are in the public sector or in the private sector—do not run their ships for charity. They must earn a sufficient profit which can enable them to maintain their fleet in efficiency, to take full advantage of modern developments in the building of ships, to replace their ships in time when their useful life is over, to go in for a reasonable expansion of their fleet and above all, to build up economic strength which may make it possible for them to keep their services going even during the period of depression. Had the Government called upon the public sector to build up a fleet of 20 to 25 tramp ships for the carriage of Government cargo —foodgrains and other cargo—and shown to the private sector that those ships could make money by carrying cargo at the lowest tramp market rates, they would have rendered a great service to the country. They have, however, not done anything of the kind. It is interesting to remember, in this connection, that nearly 10 million tons of foodgrains were brought to India between 1951 and 1955-56. Nearly Rs. 73 crores were paid to ships of the foreign flags for bringing these foodgrains to India. Did the Eastern Shipping Corporation take any step to go in for building up a tramp fleet to bring at least a sufficient quantity of foodgrains and thus save a fair amount of the drain on our meagre foreign exchange resources? None whatsoever. It is difficult to win the co-operation and retain the confidence of the people of the country when the Government act on a policy which can only be characterised as "heads I win and tails you lose."

(f) *Implications of the Freight-Pool arrangement*: It is reported that the two Indian leading shipping companies have entered into an arrangement with the foreign lines for the pooling and sharing of freight-earnings on the India-U.K. Line. The India-U.K. Line, it is recognised as the most important and vital line of India's overseas services. Pooling and sharing of freight earnings and carrying cargo in certain proportions on certain lines are not unknown to the maritime world. They have been recognised as the best means for defeating secret competition. The arrangement is said to have received the approval of the Government. Whatever may have been the justification for arriving at such an arrangement, I wonder whether the Government have fully weighed its implications. The arrangement will militate against the entry of other Indian shipping lines in this trade, unless the two leading shipping companies agree to hand over to the new lines a part of their share. Such an arrangement was not made either by the Japanese Government or by the Japanese shipowners with the P. & O., a most powerful British Line, when they captured 73 per cent. of the trades between Japan and India. Moreover, under this arrangement, India will not be able to carry, even after quarter of a century, 50 per cent. of our overseas trades on this important route, although the shipping policy expected that India would do so at the latest by 1954. This is not the implementation of a bold shipping policy which Mr. Shastri asked the country to adopt in 1956-57.

Policy for the Future

Our Government have always appealed to the country to give them its fullest co-operation in the working of their five-year Plans. It is also the earnest desire of the Government that the people should feel that it is their own Plans and it is for their own prosperity and welfare. Some of the recent changes in our shipping policy, indicated in the above paragraphs, are not calculated to win co-operation and retain confidence. They have shaken the faith of the shipowners that it is their own shipping and it is for their own benefit. Further, they will not only militate against the spirit of initiative but also deprive the people of the incentive which we all need to fulfil our obligations under planned economy. With the greater and greater monopoly to be given to the public sector in the vital fields of shipping activities, a new feeling of frustration will develop in the country, dashing to the ground all the hopes and expectations entertained by private enterprise of playing its great part in the future, as in the past, for building up an adequate and balanced merchant navy for our motherland.

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TEXTILE MACHINERY DEVELOPMENTS IN U. K.

Revolutionary Spinning Process—Electronics in Knitting

By D. W. HEPBURN

ONE of the basic principles underlying present-day design and development of textile machinery in the United Kingdom is the need to reduce the labour cost content in the conversion of natural and man-made fibres into the finished textile product. Only in this way can textile industries in high living cost countries compete effectively, in the long run, with textile producers in low-cost Asiatic countries. As the processing of textiles becomes more continuous and automatic with less dependence on manual skills, so will the gap in wages cost between competing countries be narrowed to manageable limits.

A Paradox

There is a paradox for the British textile industry in this approach, however, as continuous semi-automatic processing requires long runs of standard cloths feeding a large market, whereas many people believe that the industry's future lies more in catering for small runs of specialised fabrics to meet the ever-increasing rate of fashion change. The probable outcome will be a blend of the two schools of thought with some units catering for the mass markets which could well be provided by a joining of the European Common Market and the European Free Trade area, and other smaller units catering for speciality needs.

Within this general concept, however, machinery designers are continually striving to shorten processing to reduce costs and maintain or improve quality. Two important developments along these lines which have recently taken place in the cotton spinning section of the industry are the introduction of a direct sliver to yarn spinning system and a new shortened process of condenser spinning.

Direct Sliver

The direct sliver to yarn process developed by Tweedales and Smalley, Ltd., of Rochdale (Lancs.), has four main advantages over conventional spinning. It completely eliminates speed frames, thus avoiding a possible source of yarn faults and reducing labour costs; less frequent creeling at the ring frame is required; and yarn of better strength and regularity is spun as compared with yarn produced through one or two passages of speed frame.

New Condenser

The new condenser spinning system is a revolutionary process, invented by Harry Shenton, a Director of a Rochdale condenser spinning mill, and is claimed to be the cheapest method of condenser spinning in the world. This process cuts out ten operations, as compared with the old mule spinning system and five processes, as compared with conventional ring spinning. It is a process whereby rovings are taken continuously from a finisher card fitted with tape or ring doffer condenser and spun directly on to large bobbins. A special device on the spinning frame permits continuous doffing of the spindles, only two of which are stopped at any one time, thus ensuring non-stop operation and resulting in considerable savings in labour, power and floor space.

The quality of yarn spun on the new system compares favourably to condenser yarn spun on a mule and is definitely superior to yarn produced on the conventional ring frame.

Thus, a continuous process of raw-material-to-yarn has been established on a commercial scale, at the same time producing a superior quality product, at price reductions of anything from 3d. to 8d. a lb., as compared with present systems, including depreciation on capital.

Glimpsing into the future, the inventor visualises the system being applied to cotton blanket production, with automatic conveyance of 1-lb. packages from spinning frames to automatic coners producing 10½-lb. packages for conveyance to looms fitted with automatic weft winding devices.

Weaving Section

In the weaving section of the industry, machinery development has been less spectacular, most of the developments being in the form of improvements and modifications designed to improve cloth quality.

Many mills are, however, showing increasing interest in shuttleless looms of various types, including the Swiss Sultzer weaving machine, the Swedish Maxbo loom, and the American Draper rapier-type shuttleless loom.

This operates at speeds up to 250 picks per minute over a 40-inch width, using steel tapes which enter from both sides of the loom and exchange weft at mid-point, the weft being laid in cycles of two picks, one per shed.

A British rapier loom of a different type is being made by James Mackie and Sons Ltd., of Belfast. This has been designed especially for weaving jute and similar cloths. Weft insertion is made by two "spears" which also serve to beat up the inserted pick. Speeds of 150 to 220 picks per minute are attainable on widths from 66 to 30 inches.

Many conventional Lancashire automatic looms have also been fitted during the past 12 months with the "Unifil" loom winder, made by Universal Winding Company of America, which automatically winds weft from cone packages at the side of the loom, eliminating the need for a separate pirn winding department.

But woven cloths are meeting growing competition from knitted fabrics and to some extent from non-woven fabrics.

Knitting Machines

A forecast of future developments in knitting is provided by the invention in London of an electronically controlled knitting machine by which it is possible to produce automatically direct from a supply package all the fully-fashioned pieces required for a complete garment—skirt, dress, suit, or coat. The machine is controlled and operated electronically and garment patterns can be produced by feeding in a suitably punched tape to an electronic control box.

A less spectacular development in the knitting industry, but one which is of considerable importance, is the development by the British Hosiery and Allied Trades Research Association of a positive feed system for circular knitting machines which enables knitters to feed a constant length of yarn into each knitted loop, thus controlling to within fine limits, the dimensions of fabrics and hose. The system also provides a formula whereby the amount of yarn required, and machine settings, can be predetermined for a given length of fabric.

Further development in this field of research is being directed to applying a similar technique to warp knitting machines.

In the years since the end of World War II, the British textile industry has spent £200 million on re-equipment and under the present reorganisation scheme will probably be spending another £60 to £70 million by 1964. If the schemes go through according to plan, the British textile industry should emerge as one of the most up-to-date and efficient in the world.

MANCHESTER,
6th December 1960.

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PEOPLE—TO—BUSINESS

(*Concluded from page* 149)

product planning and manufacturing, marketing and sales are assumed by the participants. At the end of each year, the junior firm is liquidated and a new one begun.

Colombian business leaders have initiated a counterpart Council in that Latin American nation. Interest has been shown in forming others by the business communities of the Philippines, Iran, Pakistan and Viet Nam.

Mr. H. E. Humphreys, Jr., Chairman of the Board of the U.S. Rubber Company, heads a B.C.I.U. sub-committee which is now making a study to determine whether there is comparable interest in organising a counterpart Council by Indian business leaders.

Dr. Antonie Knoppers, Vice-Chairman of the B.C.I.U. Executive Committee and President of Merck, Sharp and Dohme International, will be in India towards the end of January. He plans to explore ways in which Indian and American businessmen may broaden and deepen the relationships between the peoples of the two countries through joint projects.

Publications

B.C.I.U. will soon publish a 256-page volume entitled *The U.S.A. Answers—A Guide to Understanding.* The text is based on the questions asked by Soviet citizens at the U.S. Exhibition in Moscow in 1959 and the answers supplied by an I.B.M.-R.A.M.A.C. computer. In ready reference form, the liberally illustrated book contains facts on the American people and land, education in the United States, how Americans live, Americans at work, American culture, American science and technology, the American economy, and Americans and the world.

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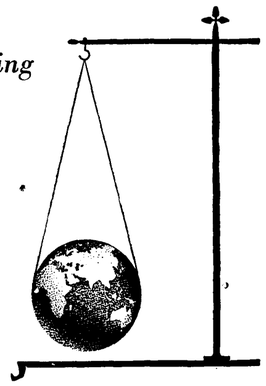
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Quite A Prosperous Year For U. K. Cotton Mills

Good Progress Made In Modernisation

By Our Manchester Correspondent

IT would scarcely have been surprising if 1960 had turned out to be a year of anti-climax for the Lancashire cotton industry after the momentous happenings of the previous twelve months. As it was, the completion of the machinery scrapping programme in spinning and weaving, the continuation of re-equipment under the Government's subsidy plan, and the negotiations leading up to the establishment of a shorter working week made it a year which was little less memorable than its predecessor.

At the beginning of 1960, the order books held by producers in practically all sections were swollen almost to bursting point. The buying which took place towards the end of the previous year was on as large a scale as had been experienced for a very long time back. Climatic conditions had a great deal to do with the expansion in the 1959 summer offtake, as the cloudless skies brought an overwhelming demand for textile products of all kinds. The elements were not as kind this year, but, perhaps from belated optimism, the public still flocked to the retail shops and bought substantial quantities of goods, which gladdened the hearts of distributors and producers all along the line.

While this encouraging business was in progress, the mills had completed the first phase of their reorganisation, which involved the destruction of large quantities of machinery, much of which had previously been standing idle. After the end of March and throughout the rest of the year, the spindles and looms were working flat out to complete the contracts on the books; the main problem facing management has been the shortage of labour.

Ageing Labour Force

After the gloomy forebodings of certain sections when the redundancy schemes were being thrashed out, such a situation is, indeed, remarkable, but, from the employers' viewpoint, the outlook is far from satisfactory. An ageing labour force, however well equipped the machinery, clearly needs the stimulus of young ideas at all levels of output. Nevertheless, there has been a remarkable improvement in the rate of machine activity since the redundancy programme was first launched. According to the latest figures, both spindles and looms are now operating at well over 90 per cent. of capacity, as compared with an average of around 70 per cent. last year.

The volume of output in the first half of 1960 exceeded production in the same period of the previous year, mainly as a result of the wider adoption of shift-working in many districts. The system was not introduced without considerable "growing pains" and, in an industry extensively staffed by female labour, numerous complications are bound to arise. Realists agree that the trend is certain to be towards a bigger use of men in the mills as time goes by.

New Buying Wave

Once the scrapping of machinery had been dealt with, the trade turned its attention towards other means of streamlining operations. The re-equipment phase has now begun and, although little definite information is to hand about the orders placed for new machinery, many firms have been drawing up their plans to re-space and modernise their works. Further efforts to achieve more efficiency in the organisational structure of the industry have also taken place. The merging of trade associations and a bigger integration between cotton and man-made fibres are additional matters to which much attention has lately been directed.

Gradually dwindling order books, which created a little concern in the minds of producers up to the autumn, were again transformed by a sudden new wave of buying. The stimulating influence in this case was the disclosure that the trade unions, representing spinning and weaving operatives, had finally decided to approach the employers for a shorter working week. For several years, the topic has appeared regularly on the agenda at the annual conference of the United Textile Factory Workers' Association. Sensing that the time was ripe, the workers' representatives have now taken the plunge.

Before the negotiations began, a similar demand for a 40-hour week in the textile finishing trade resulted in an agreement to cut the hours from 45 to 42½. This was followed by similar action in the silk and hosiery industries and in the production of narrow fabrics. On all sides, the employers conceded that some change in conditions was inevitable, as the current labour shortage made it imperative that the mills should be able to compete on at least equal terms with their rivals when manpower was so urgently wanted.

Almost twelve months to the day after the redundancy schemes in spinning and weaving were launched, a similar plan was put forward in the textile finishing trade. This followed months of complicated discussion, the main problem being the absence of any basic machine on which compensation for scrapping could be paid. The new proposals bore a resemblance to their predecessors in the producing branches but contained several important variations.

The Government again offered to provide two-thirds of the cost of dismantling unwanted machinery, but with the important proviso that, unless the minimum scrapping targets were achieved, no compensation would be available, while the plan itself would still go forward and the trade would be left to finance its own redundancy. Moreover, in this case, the employers were not permitted to scrap part of their machinery, but only complete operating units. Subsequently it was announced at the Cotton Board Conference that the minimum targets had been reached in the case of yarn processing and bleaching but that, by mid-October, only 60 per cent. and 55 per cent., respectively, of the targets in dyeing and printing had been attained.

Another important aspect of the finishing trade scheme was the power given to the Cotton Board to reject any application to scrap plant, if it was felt that its disappearance would seriously affect the productive capacity of the section concerned. The first participating period in which applications to dispose of plant were submitted, covered three months to the end of October, after which the sponsors of the arrangement reviewed the situation in the light of the response obtained. It was then decided to authorise another, and final, participating period up to a maximum of three months, but the Cotton Board has power to end the scheme at any time.

Although conditions in the market for textile fibres remained extremely encouraging, advices from other industrial centres in the country showed a disturbing tendency. The raising of the Bank rate in June, coupled with a tightening of credit restrictions, soon made a sharp impact in the sphere of durable goods, ranging from cars to washing machines and many other electrical household appliances. The change of climate in the production of such goods was regarded as a warning light in some directions and distributors of textile supplies were wary of increasing their commitments until the hardening trend in prices during the past few weeks made them quickly revise their opinions. Order books rapidly filled up again from mid-September onwards, and there were cases mentioned where manufacturers were quoting deliveries as far ahead as twelve months.

Throughout the year, the remarkable expansion in arrivals of foreign goods continued unabated. Keen demand for supplies resulted in many merchants broadening the field of their purchases into Continental centres, where they obtained goods which could not always be secured on such favourable terms from the Eastern producers who had provided most of the imports over the past few years. The tables at the bottom indicate the latest position of exports, imports, employment and production compared with recent years.

Cotton Prices and Supplies

It has been admitted at official level that the extremely favourable cotton situation last season was to some extent fortuitous. The International Cotton Advisory Committee has summed up the position by stating that production was held down in some countries by the deterrent of low prices at planting time and by the crop failure in India. On the other hand, the rate of increase in consumption may have been exaggerated by the bearish speculation in recent seasons which reduced purchases and stocks to abnormally low levels in manufacturing channels.

At all events, smaller production and rising consumption, coupled with heavy exports to the Communist countries, resulted in a further fall in the cotton surplus. Stocks at the end of the 1959-60 season were estimated at 16,400,000 bales, a reduction of 1,300,000 bales as compared with twelve months previously and the lowest level since 1953. Importers of the raw material certainly cut down their stocks to a minimum in the 1958-59 season for a variety of reasons. Stimulated during the past twelve months by rising prices and a keen domestic demand in many areas, replacement activity inflated the volume of purchases over and above the quantity needed for current consumption.

Consumption Still the Key

According to the latest reports received, aggregate output beyond the United States is likely to be considerably larger than in 1959-60 and could even exceed the record volume of 17,600,000 bales harvested in the 1958-59 season. The key factor is clearly India, where the failure last season created such a tight supply situation that substantial imports were needed to keep the mills busy. The latest Indian crop is believed to have got off to a good start, while acreage planted to cotton is significantly higher in Mexico, Central America, Egypt and Greece.

The official estimates of the American crop for the current season have so far been remarkably

Overseas Cloth Trade

(In thousand square yards)

	Exports		Imports	
	Cotton	Rayon, etc.	Cotton	Rayon, etc.
1938	1,386,235	31,176	52,000	24,000
1941	783,109	69,054	340	720
1945	441,095	84,187	10	7,620
1947	532,887	96,836	160	16,980
1949	903,578	160,708	348,800	51,600
1951	864,375	217,206	276,800	99,200
1953	709,905	176,826	98,640	44,400
1955	554,504	133,747	299,600	65,320
1957	455,760	111,239	416,252	73,490
1959	347,422	63,755	537,301	37,755
1960				
1st quarter	87,238	14,882	180,606	13,937
2nd ,, ...	84,579	14,119	173,988	13,469
3rd ,, ...	73,858	12,912	178,332	14,641

	Employment (Average at work)		Production (Weekly averages in 1,000's)	
	Spinning and doubling	Weaving	Yarn lbs.	Cloth Linear yds.
1937	176,000	187,000	26,500*	79,270
1941	117,800	108,200	23,180	41,300
1945	96,000	96,100	17,910	35,530
1947	119,500	108,600	19,570	38,700
1949	137,660	129,800	24,350	49,830
1951	145,430	140,320	27,110	56,920
1953	125,720	124,190	23,100	49,660
1955	118,380	117,970	22,350	47,680
1957	111,710	103,510	22,050	43,980
1959	91,990	84,870	19,250	37,020
1960				
1st quarter	90,070	84,810	20,680	39,020
2nd ,, ...	85,610	83,290	19,310	37,390
3rd ,, ...	77,150	71,970	17,750	32,250

*Excluding doubled yarn

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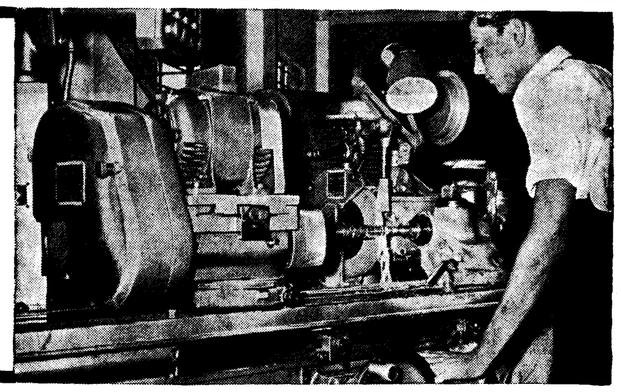
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stable and production of around 14,250,000 bales is anticipated, with a yield of about 450 lbs. per acre. On this basis, free world output would amount to roughly 32 million bales, easily an all-time record. From this point, the consumption outlook is of paramount importance. Advices received indicate no major deviation from last season's level of disappearance and textile manufacturers in many areas have well-filled order books which should be reflected in a steady usage of the raw material.

Some reports from American mill centres have not been entirely satisfactory, but the West European spinning and weaving areas indicate extensive contracts which will keep the mills fully occupied until well into 1961. The rapid development of textile industries in regions where raw cotton is grown has been frequently commented upon and, if ground is lost in the traditional manufacturing centres, it is more than likely to be made up by increased consumption by the newcomers.

Machine Activity Higher

Official figures released by the Cotton Board show not only the vast changes which took place in the standing machinery in the industry during the past twelve months but also the increase in the rate of machine activity. Whereas in the second quarter last year, there were 9,380,000 mule spindles in place, this figure had shrunk to 2,940,000 spindles by the end of June 1960. The contraction in ring spindles during the same period was from 9,810,000 to 6,800,000. The comparison in running spindles was 4,980,000 mules in the second quarter of 1959, which fell to 2,650,000 spindles this year, while rings were reduced from 7,250,000 to 6,160,000 spindles.

In complete contrast to this diminishing size of the industry, machine activity has lately reached unprecedented heights. From a low point of under 64 per cent. in the third quarter last year, the rate quickened to 76 per cent. in the last three months of 1959. The upward trend continued this year, the rate being 84 per cent. in the first quarter and just over 90 per cent. subsequently.

Exports of cotton yarn showed very little change over the first nine months of the year compared with the 1959 level, the shipments being 16,518,000 lbs. valued at £6,689,317 and 16,987,000 lbs. worth £6,269,078, respectively. The overseas offtake of sewing thread, however, showed an increase from 5,794,000 lbs. to 6,498,000 lbs.

In view of the comments made at the time when the voluntary agreements were reached establishing ceilings on exports from Commonwealth countries to the United Kingdom, but excluding yarns, the rate of imports of cotton yarn this year has created considerable anxiety. In the first nine months, arrivals showed a marked expansion from 14,809,000 lbs. to 29,134,000 lbs., the cost being doubled at £5,552,755.

Weaving Recovery

Few manufacturers in Lancashire have cause to look back at the past twelve months with any misgivings. True, some of the time they have found fresh business difficult to negotiate, but only holidays have intervened to curtail the output of the looms; pressure for supplies has been steady and in the later stages substantial.

When pressure for goods mounted in the autumn, the main stumbling-block was the length of time required to complete deliveries. Most weaving firms already possessed order books which would keep machinery busy until the early months of 1961 and additions merely meant extending completion dates. Customers, however, were sufficiently impressed with the state of the market that they felt obliged to increase their purchases, except in isolated instances where distributors chose to be independent.

While the home market was gathering in the harvest, exporters continued to find progress exceedingly difficult. Unsettled political conditions in Africa were responsible for a dwindling demand from every source in that continent, which had lately been valuable outlets for Lancashire-processed cloth. Rivalry from Japan was a vital factor in the trade recorded with Australia and New Zealand and, although a few overseas territories accepted more goods, the quantities involved were invariably smaller. At the end of the first nine months of the year, the total shipments of cotton cloth amounted to 245,675,000 square yards, as against 251,811,000 square yards in the same period of 1959, the respective values being £32,948,973 and £33,014,647.

More European Cloth

Attention has already been drawn to the very substantial increase in arrivals of foreign cloth. The amount of material reaching British ports was 532,926,000 square yards, as against 370,684,000 square yards in 1959, the value of these imports being £42,845,564, as against £27,670,755. The continuation of buying from Continental sources was a feature of the year's trading; cloth, indeed, was purchased from countries which were scarcely considered as cotton manufacturers until a few years ago.

Despite the belief in some quarters that this inflow from outside the Commonwealth would be subject to quota restrictions, no action was taken to interfere with the movement of supplies. Meanwhile, speculation increased as to the action likely to be taken next year in relation to the voluntary arrangements to curb exports from Hong Kong, India and Pakistan into this country.

In spite of many problems faced by weaving firms since the beginning of this year, including the provision of new sources of supply due to the redundancy schemes, the state of the market remained exceedingly favourable. The fact that customers were not disposed to argue unduly about prices or even deliveries, and the remunerative margins available, encouraged the belief that prosperity would continue. From being the "Cinderella" section of the trade, cloth manufacturers often found themselves the centre of attraction.

Labour Matters

It was only towards the end of the year that serious negotiations began between the representatives of employers and trade unions on the question of a shorter working week, but the possibility of such a move had already had a definite impact on the trade situation. As early as May, mechanics in the textile finishing trade had had their hours reduced from 44 to 42 weekly and, at the annual conference of the United Textile Factory Workers' Association, the spinning and weaving trade unions had been urged to press their claims for a concession in hours. No surprise was, therefore, caused when in September the formal application for a cut from 45 to 40 hours was submitted, coupled with pay adjustments in the case of shift-workers. In the meantime, negotiators in the textile finishing trade had been meeting and a settlement on the basis of a 42½-hour week to operate from the end of November was reached. Other sections in which a shorter week was conceded included the silk and hosiery trades and the production of narrow fabrics.

Faced with this obvious trend, the main body of employers was given little room in which to manœuvre. It was taken for granted that they would follow suit in reaching an agreement with the best grace possible, although the position of shift-workers offered scope for argument. The unions wanted operatives who were already working a 37½-hour week to get a 3 per cent. wage increase and the 38¾-hour week to be cut to 37½ hours.

Minimum Rates Raised

When the joint discussions on wages were taking place earlier in the year, resulting in an all-round advance of 7½ per cent. in March, a special plea was put forward by the trade unions for the case of the lowest paid workers in spinning and weaving to be considered. Later talks justified a revision in the minimum rates, which were raised from £7 5s. 6d. to £8 2s. 5d. weekly.

Owing to changes in the statistics issued by the Ministry of Labour, strict comparisons with former periods are not now available. The returns for the last week in April, however, show that the average earnings of men in spinning and doubling were £11 16s. 9d. and for women £7 6s. 8d. The position in weaving was an average of £12 7s. 1d. for men and £7 14s. 4d. for women. At that time, men in spinning and doubling were working an average of 48.3 hours, while the figure for women was 41.9 hours. In the weaving section, men were operating looms for 45.9 hours and women 41.8 hours. Earnings in textile finishing at the end of April averaged £12 10s. 1d. for men and £6 10s. 6d. for women. The average hours worked by men in this branch were 51 in the week concerned.

Prospects

The latest official statistics indicate that producers of textiles have benefited from the restrictions on credit which have complicated matters for the makers of more durable goods. Whereas sales of washing machines, refrigerators, cars and similar articles have steadily declined during the past few months, the offtake of consumer goods, notably those in the textile range, has broadened.

According to the Wholesale Textile Association, the seasonal advance in total sales, as measured by the index numbers from July to August, was larger in 1960 than for several years back and sales for the eight months to the end of August were 9 per cent. greater than in 1959. The forward buying lately encountered may give the industry in Lancashire and surrounding counties the standby it will need, if, in some months' time, consumers show more nervousness than they do at present. The chief concern of customers by the middle of next year may well be the outlook as regards further imports of foreign goods.

By then, at least the initial contacts will have been made with Hong Kong for some continuation of the present system of curbing exports from the Colony to the United Kingdom. On this voluntary arrangement hangs the whole question of duty-free Commonwealth imports, as India and Pakistan will not be prepared to countenance any important change in the system affecting Hong Kong without revising or abrogating their own voluntary pacts with this country.

Imports Without End

Already in the first nine months of this year, the volume of foreign cloth arrivals has soared to over 530 million square yards of cotton cloth, as compared with 370 million square yards in the same period last year. Every section tells the same story. Cotton yarn imports have been doubled at nearly 30 million lbs.; man-made fibre yarn purchases from abroad have increased from below 2,500,000 lbs. to over 6,750,000 lbs. and man-made fibre cloth arrivals have exceeded 42 million square yards, as against little more than 26 million square yards.

Such figures give no indication of the much larger imports of textile garments which are now arriving in this country in far greater quantities than ever before. The reduction in shipments of grey cloth from Hong Kong has resulted in an outcry from the Colony, but a considerable switch has taken place in the type of goods being purchased. Made-up garments now represent a much bigger proportion of this trade.

Several years ago, a number of important Manchester merchant houses put on record their intention to handle only locally-made goods; praiseworthy as such aims may have been at the time, circumstances alter cases. Little is now heard of this attitude, which has been superseded by the recognition that they can no longer watch their neighbours dealing with imported fabrics at their expense.

Reorganisation in the spinning and weaving departments is clearly making progress. The redundancy arrangements which were completed only a few months ago proceeded more smoothly than anyone would have dared to predict in 1959. Re-equipment remains an enigma and the full effect of modernisation remains to be judged in the years ahead. The trade has still to coax back not only juveniles into its ranks, but must encourage former operatives to return to the mills, even on a part-time basis, by offering them better continuity of employment than has often been the case in the past.

Much, therefore, depends on the readiness of the distributing branches to recognise the problems of the producers. Varying pressure on the market, leading to violent fluctuations in demand, both for goods and labour, can only have the effect of diminishing the size of the industry, at least on a long-term basis.

Overhead charges, ranging from power supplies to transport and insurance stamps, are steadily mounting. The same pay for shorter hours merely accentuates the position and producers are forced to raise their quotations accordingly or submit to smaller margins. No regulated price levels are now in force, but the scale of recent demand has been sufficiently large to eliminate the weak seller to all intents and purposes, while delivery remains the focal point when negotiations are taking place. Further advances in the general level of prices must be anticipated in the months ahead.

The profit-earning capacity of the industry has improved out of all recognition within the past twelve months. It is safe to predict that the financial results so far reported by companies, big and small, will be very handsomely exceeded when comparable figures are published next year. Payment of levies to cover the industry's share of the scrapping plans and re-equipment will diminish the size of profits and taxation is still a heavy burden to carry, but the orders now being worked off have been obtained at such remunerative prices that it is doubtful whether the trade has ever experienced so prosperous an era.

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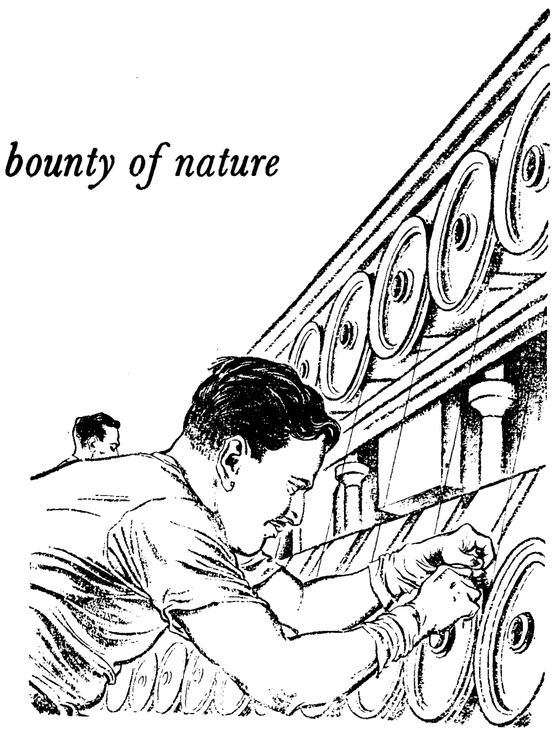
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MONETARY THEORY AND POLICY

(*Continued from page 116*)

When the marketed surplus is reduced, the non-agricultural sector finds that its production potential is reduced. More often than not, there is a fall in the demand for cloth, vegetable oils, etc. This is so, because, with rising prices, wage-earners reduce the proportion of outlay on the relatively less essential commodities. Consumers try to hold essential commodities and postpone outlay on inessentials. Thus, the rise in food prices can co-exist with a slack in textile and related prices. In the opposite case, when food supply expands and/or is expected to expand, the marketed surplus goes up. There is an increased demand for clothing, salt, vegetable oils, etc. As a result, there is a rise in the level of prices of some of these commodities.

When a climatic bumper is expected, there is a rise in the ratio of marketed surplus. The price level starts falling. If the expectation is that prices would fall—to assume so would be realistic—the demand for commodities arising on account of speculative motive will be *reduced*. In effect, money will get into hoards. The level of activity in the non-agricultural sector would tend to rise. The level of real wages also would tend to rise. However, the difficulty is that a higher rate of activity in the non-agricultural sector would create an increased demand for money. On the other hand, as money would be getting into hoards, the rate of interest would have a tendency to rise. This, in its turn, would increase the marketable surplus.

Thus, even with given money supply, the price level would start falling.

In some cases, the fall in the price level of foodgrains arising on account of increased output, will lead to an increased demand for textiles, vegetable oils, etc. This would be so on account of two reasons. The farmers' aggregate money incomes would have gone up; with the fall in the price of foodgrains, the wage-earners and other sections would tend to spend more on related commodities. Thus, rising prices of essential articles other than food and falling prices of foodgrains may co-exist.

Thus, changes in the level of prices occur, because of changes in the quantity of marketed surplus. Changes in the latter occur on account of changing expectations regarding climatic conditions. Money supply with the public may remain unchanged; yet prices may rise and fall steeply. Such changes affect sharply the economic conditions of low income groups, beneficially or otherwise.

VI

Under the above conditions, how can monetary-cum-fiscal policy maintain price stability?

Let us first take up the case wherein expectations of climatic adversities reduce the ratio of marketed surplus. This would be characterised in public discussions as a period in which hoarding of grain is taking place in large scale. Under normal conditions, idle money would now get into activity. Those with excess liquid resources would like to convert a state of excess monetary liquidity to one of adequate real-liquidity. Short-term liquid assets will be sold in exchange for cash which, in its turn, will be used for purchases of grain and industrial materials. Bond values will fall. The ratio of fixed deposits to total deposits will be reduced. In all possibility, there will be a drain of cash from the banks. Monetary resources utilised for purposes of speculation on the stock markets would now be diverted towards the commodity markets. Stock prices may fall. The credit available from the banks may be diverted from productive purposes to speculative purposes. From all points of view, the symptoms indicate a state of *quasi*-inflation

In such a situation, there are several advantages in operating a monetary policy which brings about sharp and violent fluctuations in the rates of interest. To be effective, such policies must affect all the sectors of economy. Industrial credit, trade credit and agricultural credit, must be equally affected. In fact, one of the longer-term objectives of the monetary authority should be to develop those institutions which would tend to increase the speed at which given impulses are transmitted; in the alternative or in addition, other time-honoured institutions outside the pale of control of the central banking authorities must be brought within the area of control. No doubt, sharp fluctuations in the rate of interest might tend to affect Government borrowing policy. The fears here are more imaginary than real. The rate of interest on Government bonds under Indian conditions is in no sense a representative price for capital. It must be remembered that, at best, the monetary authorities can prevent the inhibiting impact of the speculative motive on the demand for real-liquid assets. To the extent that climatic adversities are expected very strongly, there is a real crisis in the economy. The remedy here has to be through appropriate commodity stock arrangements. A satisfactory real-liquidity situation in the economy is only created when the required flow of commodities to maintain inventory requirements of a normal level of output is available. Inventory-building must be undertaken by the State or its agencies.

In developed economies, a liquidity crisis can generally be solved by increasing the volume of money and making the terms of lending easier. In the Indian economy, however, the liquidity crisis is essentially of a different sort. In a developed economy, an increase in money supply leads to a fall in the rate of interest and hence indirectly to an expansion in the volume of employment and incomes. In an underdeveloped economy, in a state of liquidity crisis, an increase in the supply of money leads to a fall in the money rate of interest, encourages speculative holding, decreases the marketable surplus and thus *reduces* the level of activity. The most serious effect would be felt in the non-agricultural sector. Too *much money here means too few goods*. The liquidity crisis in India is the antipodes of the liquidity crisis in a developed economy. Obviously, tools and instruments of monetary action designed to bring about changes in the latter are hardly of major importance in an underdeveloped country.

The second method of attack on the problem would be to plan for heavy budgetary surpluses. Cash has to be withdrawn from the public. Action may have to be taken by rising rates of commodity taxes; concessions may be reduced; loans from the Governments may be reduced, expenditure may be curtailed. Taxes have to be imposed on agriculture and the trading sections, etc.

The third method of attack would be to plan for physical controls.

On the contrary, conventional economic policy in India is to start a programme of public works in times of famine and to run down accumulated famine funds. To the extent that these works are financed by taxes, the aggregate money demand would be less than if they had been financed from liquid funds or out of created money. The price situation in the short-run gets

(*Continued on page 192*)

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BOOM AND BUST IN PEPPER

Bull Syndicate in Singapore Loses The Game

By INDRAJI T. PAREKH

THE year 1960, which is passing into oblivion, will go down in the history of pepper as a memorable one, as it witnessed the climax of the buying spree engineered by the Singapore bull syndicate and followed by the speculators in New York. The year opened with a bang. There was a big boom, the like of which had not been seen in the recent past. It was really an exciting start. The prices for spot in New York, which had been developing upward trends since July 1959 from the lowest at $0.23 per lb. in January 1959, reached the zenith at $0.86 during the beginning of 1960, thus completing the circle of the bull phase which started in 1959.

With Singapore seething with bullish fervour stage-managed by the syndicate, white pepper in London established a new high level at 8s. 6d. per lb. c. & f. from the lowest at 2s. 6d. per lb. Malabar black pepper in India showed a sympathetic rise, establishing a new high level of Rs. 2,200 per candy of 6 cwts. for ungarbled and Rs. 375 per cwt. for garbled, as against Rs. 518 for ungarbled and Rs. 88 for garbled at Cochin in the beginning of 1959. White pepper at Singapore spiralled to a high level of Str.$506 per picul f.o.b., as against Str.$128, the lowest seen in January 1959. Black Lampong showed a strident rise of Str.$270 per picul, the highest and the lowest being Str.$340 and Str.$70, respectively. Even the most ardent optimists were confounded by the behaviour of the markets both at Singapore and New York. Various articles and reviews giving supply and demand statistics of pepper published in the newspapers at New York, London and Singapore created a psychology of "scarcity." Pamphlets circulated by the private agencies showing a shortfall of 10,000 to 20,000 tons in the world's supply of pepper fanned the fire. It was foolhardy to forecast the size of the production of Lampong and Muntok in the beginning of the year. All these, however, proved a big hoax played by the bulls on the unweary among the dealers, the grinders and the consumers. Most of them burnt their fingers as badly as was the case in the last Korean debacle. The strong grip that the syndicate had on the market from July 1959 to January 1960 seemed to have weakened in view of the large-scale accumulation of stocks and contracts by them without enough followers to share the burden.

No Following

In their heyday, the syndicate had enough following. But their camp was deserted as soon as the prices in New York showed a reverse course from the meridian at $0.86. Some of their erstwhile followers became bears. Singapore was divided into two camps. A battle-royal was fought between bears and bulls. Each of them doled out to the world the statistics of supply and demand to suit their own purpose. Mother Nature, however, contrived to help the bears by producing a rather bumper crop in Sumatra, Banka and Brazil, despite public disclaimers by the bulls. In the month of April, rumours were spread that the Lampong crop was affected by yellow disease and consequently would turnout to be poorer and that the Muntok production would be smaller, in view of the repatriation of Chinese growers from Indonesia. As a result, there was a flurry in the market. But it proved short-lived as the rumours were said to be unfounded and spread by interested parties. During the year, Lampong produced more than 20,000 tons and Muntok 6,000-7,000 tons. Japanese cultivators in Brazil harvested as much as 6,000 tons of pepper.

New York, as a rule, always overbuys in a rising market and underbuys during a decline. During the veritable scramble for the buying manœuvred by New York bulls, the U.S. bought from India as much as 7,000 tons, that is, nearly 50 per cent. of her yearly requirements, within a couple of months. Such a purchase was facilitated by a larger crop of 28,000 tons of Malabar pepper in 1959-60 and the free selling policy by the growers on the coast who continued to supply as much as 700-800 candies per day during the season. The year proved particularly fat for the growers as they had been able to dispose of the major portion of their produce at an average price of Rs. 1,600 per candy of 6 cwts. Obversely, middlemen and others were the sufferers, as most of them had held on to their stocks in the hope that the syndicate in Singapore would, once again, try to rig up the prices. The dealers had to carry the baby for the remaining part of the year.

Indian Shippers' Integrity

As the prices in New York began to rise, some of the dealers there became apprehensive that their low-priced forward purchase contracts of Malabar black might not be fulfilled. As a consequence, they came out to buy afresh to forestall any such eventuality. As if this was not enough, one of the New York speculators who took it for granted that the major part of the low-priced contracts in Malabar pepper with New York would remain unshipped as the rise in the prices was abnormal, began to buy a sizable quantity at every rise. Thanks to the high commercial integrity of the Indian shippers, however, all the low-priced contracts were fulfilled and the doubting Thomases were left to be stewed in their own juice as the large purchases made by them under such apprehension hung heavy around their neck.

Europe did not lag behind. It bought white pepper heavily from Singapore. Housewives all over the consuming countries overstocked their larders with pepper to forestall the still higher prices. Grinders and spice mills also made heavy purchases both for ready and forward deliveries. The propaganda against the high prices of pepper by grocers all over the world, coupled with the stockpiling resorted to by all the parties concerned, was responsible for the patchy buying during the greater part of the remaining period of the year. Heavy short positions by the bears in New York, London, Rotterdam, Amsterdam, Hamburg, India and Singapore having been covered, the boom was busted. Prices slowly came down to $0.45 per lb. for spot in New York during October 1960 with periodic technical corrections off and on. With the steady stream of liquidation on the part of the bull operators to get rid of their commitments, the market in Singapore gradually turned bearish and a climax of selling wave was reached in October, pushing down the price to a new low level of Str.$228 per picul for white and of Str.$140 for Lampong pepper. A low of about Rs. 1,100 per candy of 6 cwts. for Malabar was touched in November.

Terror To Bears

The Singapore syndicate overshadowed the world pepper market during the year. They supplied dynamic leadership to all the pepper-producing countries. They proved a terror to bears, as they were said to have made big money on the low-priced purchases of Muntok and Lampong pepper. Pepper dealers, in general, watched very closely their activities in Singapore, London, New York and India. The syndicate continued to manipulate the market by buying in the dip and selling in the rise in Singapore and New York. There was a time when almost all the pepper dealers in the world feared to sell short when the syndicate was in the market. Though, for various reasons, they were not able to stem the decline in prices, yet more than once they successfully squeezed the bears in Singapore and elsewhere to the very marrow of their bones.

The bulls in New York and Singapore made combined efforts more than twice to lift up the prices to the January level, but, for want of follow-up buying, they failed to create any impression on the world's market.

The timings of harvesting in the three major producing countries, namely, India, Sarawak and Indonesia, are such that they follow one after another in succession, with hardly a respite of two months. As such, a successful cornering of pepper can only be done if one is prepared to support Malabar, Sarawak, Lampong and Muntok in their respective peak seasons.

The two disquieting developments during the year had been a general loss of interest in the market by the outsiders as well as the insiders who dropped money rather heavily in the beginning of the year itself on their short sales and later on the long positions which they built up in the hope of making good their previous losses. Further, the psychology of "hand-to-mouth buying," created in the consuming countries by the news of surplus production of pepper in the world in general, also had a restraining influence on the price trend as 1960 advanced.

Highlights of the Year

Following are some of the important events of the year which left their impact on the behaviour of the pepper markets in India and elsewhere:

1. The cornering of the entire production of Muntok (1959) and buying of a big slice from the production of Lampong by the syndicate.

2. The buying of garbled pepper in India by the syndicate to create a bull psychology in the beginning of the year.

3. The re-shipping of about 900 tons of white pepper to Singapore from London, Rotterdam and Hamburg by the syndicate. This appeared something like "carrying coals to Newcastle." It was done with a view to creating a scarcity in Europe on the eve of the autumn season. Such manœuvring proved unsuccessful, as it failed to excite the dealers, grinders and spice mills to follow the rise and Sarawak began offering direct to Europe at lower prices.

4. Buying of 1,000 tons of Lampong pepper by Russia and the possibility of its further purchases in the near future.

5. A large difference between the prices of black and white pepper in Singapore encouraged regular washing of black pepper into white, thus easing the supply position of white, which remained tight, because of the cornering by the syndicate.

6. The repatriation of Chinese dealers and growers from Indonesia.

7. Faulty policy of fixing "check prices" for export of pepper by the Indonesian Government.

8. The uncertain world political situation.

9. The election of the new President in the U.S. from the Democratic Party.

10. Rush for buying go'd in Europe and subsequent weakness of the American dollar.

11. Impending recession in the U.S. and its possible repercussions on world economy.

12. Increasing production of pepper in Brazil.

13. The closure of the Palai Central Bank Ltd., one of the important banks in the pepper-growing belts of India, and the curb on lending by the Reserve Bank of India.

14. The declaration of one more emergency for forward trading at Cochin, curtailing the scope for genuine hedge business in the coming crop. Absence of forward sales in the new crop of Malabar pepper to overseas' markets.

Month-by-month Review :

January

January opened with a bang. The "fireworks" started in November 1959, continued to be in full blaze during December and January. Arrivals of new crop being heavy in December and the growers being anxious to encash their crop at the prevailing fancy prices which were not seen in the recent past, the market refused to dance to the tune of the speculators at Singapore and New York. The tempo of arrivals slowed down a little during the month. This emboldened New York speculators to pay for Malabar black for January-February shipments up to $0.74 and for shipments by named steamers at $0.83. The speculators at Singapore were not slow to exploit the situation. They pushed up the prices in Singapore for white and black pepper by nearly Str.$50 in a day. The highest levels recorded at Singapore for black and white were Str.$340 and Str.$506, respectively. The major part of the spot stock in New York was in the hands of the strong bulls. They joined in the fray. A new high level for spot at $0.86 per lb. at New York was also established. Grinders who were moving cautiously got excited. Tney came out to buy in a battalion. Most of them purchased "spot" as well as "forward." New York dealers on their part had to buy for replacement.

A vicious circle was thus started. New York speculators, who had their hand on the pulse of the market, thought it an opportune time to develop the tempo. They paid for Malabar black for shipment by named steamer at as high as $0.83 per lb. This sparked off a mad orgy of buying in New York, Singapore and India. Every dealer went long, as is wont in a rising market. India sold for December through March shipment as much as 7,000 tons. New York and other overseas dealers, who had been buying "hand-to-mouth" since the beginning of the bear phase in 1952, paid more attention to "forward deliveries." This alerted the Indian shippers. Heavy shipments of Malabar black to the U.S. during December and January, amounting to about 4,500 tons, appeared far from sufficient to quench the thirst of New York dealers. Bull speculators broadcast that they were determined to push up the price to $1.00 if not more, before autumn this year. In the heat of excitement of the bullish fervour, almost every dealer went off his balance. His temper ran high. The market became overbought. And soon the momentum of the rising tempo began to exhaust itself. Mad frenzy cooled down. The operators realised that it was sheer midsummer madness to overbuy at the very beginning of the season. But it was too late when this realisation dawned on them. Ungarbled at Cochin, after opening at Rs. 1,600, surged forth to Rs. 2,200 per candy of 6 cwts. and then came down to Rs. 1,650 by the end of the month. Gyrations in prices were erratic. Garbled at Cochin which was quoting in the beginning at Rs. 275 improved to Rs. 375 to come down to Rs. 285 per cwt. Ready ungarbled at Bombay moved from Rs. 200 to Rs. 250 per Bengal maund to step down to Rs. 215. The spot in New York improved from $0.52 to $0.86 to dip down to $0.68 under pressure of arrivals and for lack of fresh buying. But for inquiries from Russia and East European countries, the prices of Malabar would have gone down still further. The movements during the month in Singapore were equally violent, the highest and the lowest for white being Str.$506 per picul and Str.$346 for white and Str.$340 and Str.$235 for black pepper. Malabar black pepper had no backbone of its own. It wanted support of buying almost every day, particularly from New York. Support from Russia and East European countries often did not help the trade, as a "single buyer" from these countries made purchases from selected parties. Their purchases were not so broadbased as those by New York.

February

The month of February made a mixed appearance. Bears who were marking time appeared on the scene. When they saw that the bulls were gasping for breath, they came out to press. They began to hammer. Spot in New York was brought down from the highest level of $0.86, touched in January, to $0.51 per lb. The bears also overbeared the market, forgetting that they had to face stronger bulls in New York and Singapore, who had already booked decent profits on their former low-priced purchases. India exported to the U.S. as much as 1,860 tons in December (1959) and 2,640 tons in January (1960). Such heavy exports encouraged the bulls. They tried to lift up the market. Singapore lent a helping hand, but New York and London refused to follow. Some dealers on the Malabar coast revised their estimates for new crop Malabar black pepper from 28,000 tons to 25,000 tons. This helped the market to steady up a little. Without support from New York, the undertone, however, remained uncertain. After seesawing from Rs. 1,700, ungarbled at Cochin came down to Rs. 1,300 to close at Rs. 1,630, while garbled, after improving to Rs. 300, was down to Rs. 230 to close later at Rs. 280. Opinions of the marketmen on the future were divided. Ungarbled at Bombay moved between Rs. 225 and Rs. 205 per Bengal maund, with demand far from encouraging. India was closely watching the movements of the syndicate at Singapore and the doings of a bull speculator at New York.

March

The market was down during March under pressure of selling waves by the weak holders and the bears. Such heavy shake-out made the market somewhat healthy. Yet, it failed to respond, as the attitude of New York and Singapore speculators was to liquidate their holdings at every rise. No doubt, they tried to support the market at lower levels. Consumers like grinders, spice mills and chain stores realised, though late, that it was all a game by the speculators for getting out of the market unscathed. A level of $0.50 per lb. in New York was considered a safe one. As such, the new buyings developed around $0.50, while the sellings ensued at around $0.60 as it was considered high level of the year. Singapore had to come out to support at lower level for maintaining the morale of the market. It stemmed more from self-interest, as they were holding big quantities. Russia and other East European countries were in the market, but they haggled for lower prices. These "single buyers" were more price-conscious. In the declining market, they preferred to wait until the market stabilised at a certain level. They managed to buy without exciting the market. This was decidedly an improvement over their former purchasing policy, when they were buying their yearly programmed requirements in one transaction, thus unduly exciting the sellers. They preferred to spread over months the quantity under their buying budget. While the Singapore syndicate continued to send sizable consignments to New York almost every month to be sold at the best market price for relieving the pressure on the local market, they were going long in Singapore for staging a local squeeze at the right moment. Very often they proved successful in such manœuvring. In the overseas market, however, these tactics failed to pay dividend for lack of following. Anyway, the spearhead of the world's pepper market during the year was the Singapore syndicate. Price range during the month for ungarbled at Cochin was the highest at Rs. 1,700 and the lowest at Rs. 1,425. Garbled pepper gyrated between Rs. 245 and Rs. 295. Ready ungarbled in Bombay shuttled between Rs. 200 and Rs. 220 per Bengal maund. Fluctuations in white at Singapore were listed from Str.$370 to Str.$300 and black from Str.$200 to Str.$235.

April

April opened on a buoyant note. News that the arrivals of new crop of Sarawak would be delayed and that the Sarawak Government decided to provide storage and financial facilities to growers, dealers and exporters in all the pepper-growing areas of Sarikei, Kuching and Miri for stabilising prices, proved a supporting factor. Rumours that Lampong crop was affected by "yellow disease" and that the crop would be smaller emboldened the disheartened bulls. Spot in New York was pushed up from $0.60 to $0.70. Speculators and dealers in India also began to collect contracts. They bought ready ungarbled at as high as Rs. 1,900 per candy of 6 cwts. They went long on the Exchange ring in May and July deliveries, boosting the prices to Rs. 340 and Rs. 360, respectively. This, however, proved the last straw on the camel's back. The feature of the month was that, though New York and India improved, influenced by the news that the Lampong crop was affected, Singapore, the originator of the rumours, remained almost immune from the bullish fervour. Later on, the rumour proved a flop and was said to have been circulated to misguide the overseas markets. Russia came in to pick up some quantity when she saw that the market was improving. Ungarbled at Cochin climbed up from Rs. 1,575 to Rs. 1,900 and garbled from Rs. 270 to Rs. 327. Ready ungarbled in Bombay fluctuated between Rs. 245 and Rs. 315, with inland demand sluggish. The noteworthy feature of the year was the poorer inland demand which knowledgeable sources attributed to last year's heavy purchases by the interior and consequent sizable building up of the invisible stock in the country.

May

The month of May would be remembered as a month of cross-current propaganda emanating from Singapore about the size of the coming crops in Sarawak and Indonesia. Bulls gave out the estimates of Lampong crop from 6,000 tons to 10,000 tons, while the bears, on their part, put out the inflated figure of 25,000 tons. Some of the bears were so sanguine that they were out for taking bets on the figure of their estimate. Dealers all over the world were confused. They refused to believe either of them. They preferred to watch the behaviour of the market. While stale bull liquidation was taking place in the overseas markets, India thought it fit to maintain over-parity price, influenced in most cases by the forecasts of chartists and star-gazers. It was a godsent opportunity for Singapore which sold a sizable quantity, in view of the approaching new crop of Sarawak and Lampong. Indian exports during April to October to the U.S. were reduced to a nominal figure of 1,400 tons, in view of the reserved selling policy adopted by Malabar. The export figures from April to November showed that the Communist countries were the prominent buyers, followed by Italy and Canada. The Pepper Convention in New York was held on 22nd May. Usually, fair-sized business is transacted at such a gathering. But this year, the turnover was negligible, as the grinders' pipelines were loaded with high-priced goods. Inventories with the New York dealers were also equally heavy. Further, the freight from Singapore to New York was raised from $70.50 to $91.50 and that from India from $50 to $70. The stock position in New York and Europe was comfortable in view of their heavy purchases during the upheaval in December and January. Spot in New York moved between $0.53 and $0.64. In Cochin, fluctuations during the month were comparatively narrow, ungarbled having moved between Rs. 1,650 and Rs. 1,800 and garbled between Rs. 285 and Rs. 310. Ready at Bombay moved between Rs. 220 and Rs. 240 per Bengal maund. Singapore prices for white pepper were listed between Str.$255 and Str.$295 and those for black between Str.$185 and Str.$220.

June

The month of June was influenced more or less by the world political situation, after the failure of the "summit conference" at Paris. Some dealers, after their return from the yearly A.S.T.A. Convention, viewed the spot situation with some concern, in view of the approaching fall season, with major part of the ready stock in strong hands. Bull speculators started manœuvring. They raised their price from $0.54 to $0.59. The Indonesian Government placed the estimate of Lampong new crop at 15,000 tons at the highest and at 10,000 tons at the lowest, as against the bears' earlier estimate of 25,000 tons. This made sellers at Singapore rather reserved. Smaller new arrivals from Sarawak made them even more reserved. New York spot holders were, therefore, able to boost their price from $0.59 to $0.67. They also made sizable purchases for July/August/September at rising prices on the New York Produce Exchange. Further, rumours of damage to new crop of Malabar by early rains were spread by interested parties. This, coupled with the news of the late and smaller arrivals of Sarawak pepper in Singapore, revived courage among the bulls who were marking time. The bears who were building up short positions came out to cover. Thus, a scramble for buying ensued. Bulls immediately strengthened their grip on the market and forced the bears to pay through their nose for the short sales. This month is always considered crucial, as New York dealers start buying for their autumn requirements. Stock holders, therefore, envisaged good demand for spot from grinders and dealers. They began raising their price the highest being $0.70. Unfortunately, the demand failed to improve, as there was a sizable building of the invisible stock with the grinders, meat-packers, grocers and consumers. Consumers, in general, resisted higher prices. Continuous flow of the unsold consignments from Singapore to New York discouraged new buyings. Dealers wanted to wait and see rather than follow the speculative manœuvrings in the market.

July

July was marked as a rather cooling period, after the recent excitement encouraged by the short-covering by the bears both in Singapore and New York. The Indian bulls spread rumours regarding the impending orders from the U.S.S.R. and East European countries which ultimately failed to materialise. August delivery on the Cochin Exchange improved to Rs. 348 per cwt. The market, thereafter, began to drop. Once again, Singapore operators started bulling the market by spreading rumours that Russia was negotiating with the Indonesian Government a barter deal in pepper for about 4,000 tons in exchange for electrical and industrial machinery. Such rumours were taken by the overseas market with a pinch of salt. There was no sign on the horizon of a broadening of the usual autumn demand. This disheartened the longs. They came out to liquidate. In order to encourage exports, the Indonesian Government removed the export duty of 20 per cent. on pepper. The news of detention of a sizable quantity of Lampong in New York and the report that the coming Sarawak crop would be late helped the bullish sentiments to revive. Spot in New York improved to $0.66. But this proved a passing phase, as grinders sidelined and were not anxious, as they had enough stocks for some time to come. New York came down to $0.57. Garbled at Cochin improved to Rs. 320 only to come down to Rs. 292; similarly, ungarbled, after improving to Rs. 1,875, climbed down to Rs. 1,650. Ready ungarbled in Bombay moved between Rs. 240 and Rs. 220 per Bengal maund.

August

Though there was no new development during August as far as Malabar black pepper was concerned, the month had two important features: one, the beginning of the arrival of New Lampong at Singapore and the other the re-shipment to Singapore of about 900 tons of white pepper by the syndicate from the ports of London, Rotterdam and Hamburg, where the stock was lying on their account. Prices for white pepper in London, as a consequence, spurted from 67d. to 75d. Black pepper showed sympathetic rise, but it was a temporary phase as the pressure of new arrival from Lampong encouraged Singapore sellers to offer to New York September-October at as low as $0.52. Improvement in white pepper in Europe proved short-lived, as Sarawak dealers began to offer direct at a lower price. Efforts on the part of the syndicate to create scarcity of white on the eve of autumn thus proved abortive. Consumers and dealers in Europe refused to be hustled into new buying. They preferred to live on their own inventory. There was no scope for selling Malabar pepper in New York, as the quotations thereof were higher than those quoted for Lampong. Indian prices were kept up by local speculators in the hope that Russia would buy Malabar pepper in the near future. But no buying developed from that source. The prices for Malabar in October delivery came down to Rs. 245 from the highest at Rs. 310. Ready ungarbled and garbled also came down, touching Rs. 1,350 and Rs. 235, respectively, the lowest levels for the month. Proximity of the new season in Malabar, the beginning of

STATISTICAL DATA ON PEPPER

Prices

	Ready Alleppey per candy of 6 cwts.		Spot Malabar in New York (per lb.)	
	High Rs.	Low Rs.	High $	Low $
1959				
December ..	1,400	1,000	0.53	0.45
1960				
January ..	2,150	1,150	0.86	0.65
February ..	1,700	1,300	0.67	0.52
March ..	1,675	1,450	0.66	0.55
April ..	1,900	1,587	0.66½	0.56½
May ..	1,800	1,600	0.64	0.53
June ..	1,875	1,625	0.70	0.57
July ..	1,875	1,650	0.66	0.57
August ..	2,100	1,350	0.60	0.54
September ..	1,550	1,325	0.56	0.47
October ..	1,550	1,250	0.56	0.45
November ..	1,350	1,150	0.56	0.52

Export of Malabar Black Pepper from India

(In tons)

	Export to all countries	Export to U.S.A.	Export to U.S.S.R.
1959			
November ..	1,683	373	671
December ..	2,633	1,862	..
1960			
January ..	3,794	2,635	210
February ..	2,501	1,388	615
March ..	1,983	1,095	250
April ..	1,362	349	430
May ..	1,359	248	844
June ..	800	102	475
July ..	584	35	125
August ..	588	55	..
September ..	877	117	150
October (estimated) ..	1,300	300	200
November (estimated) ..	1,000	250	200

Average Spot Price of Malabar Black in New York

(In $ per lb.)

1949	1.00
1950	1.89*
1951	1.60
1952	1.40
1953	1.20
1954	0.70
1955	0.42
1956	0.30
1957	0.27
1958	0.25
1959	0.27
1960	0.58

* Peak = 2.80.

Total Output of Lampong Black, Muntok White and Sarawak Pepper

(In tons)

Year	Lampong Black	Muntok White	Sarawak Pepper
1952	4,000	1,300	5,000
1953	3,000	3,750	8,000
1954	8,000	8,250	14,000
1955	5,000	5,000	13,000
1956	7,000	8,000	18,000
1957	8,000	9,000	14,000
1958	12,000	5,000	8,000
1959	10,000	3,500	9,000
1960	20,000	7,000	8,000

Total Export, including Sarawak, Lampong and Muntok Pepper, from Singapore during the years 1957 to 1960

(In tons)

Month	1957	1958	1959	1960
January ..	2,250	3,090	2,081	1,601
February ..	1,300	2,120	2,563	1,098
March ..	1,250	2,705	2,268	859
April ..	1,220	2,098	2,639	953
May ..	1,940	2,277	2,369	1,531
June ..	2,010	2,186	2,243	1,320
July ..	1,875	2,886	2,768	2,115
August ..	3,300	1,828	2,630	2,539
September ..	2,220	1,502	2,231	2,488
October ..	2,000	1,801	2,293	..
November ..	2,600	1,745	1,747	..
December ..	2,348	1,689	2,036	..

High and Low Prices of Garbled at Cochin during the years 1957 to 1960

(In Rs. per cwt.)

Month	1957		1958		1959		1960	
	H.	L.	H.	L.	H.	L.	H.	L.
January ..	102	92	90	84	115	88	375	260
February ..	100	92	98	84	134	113	300	230
March ..	95	90	112	96	124	108	295	250
April ..	98	93	112	101	118	111	327	275
May ..	107	102	105	96	115	110	302	295
June ..	110	102	106	97	112	110	330	295
July ..	105	101	115	108	130	112	320	290
August ..	105	102	112	104	132	124	290	235
September ..	105	102	109	100	140	128	260	230
October ..	100	95	100	95	147	137	240	220
November ..	98	92	98	92	242	135	235	187
December ..	98	92	89	85	228	185	..	..

Output of Pepper in India and Exports

(In tons)

Year	Output	Exports
1950-51	18,000	15,100
1951-52	19,000	13,000
1952-53	18,000	10,700
1953-54	22,500	14,685
1954-55	19,000	11,170
1955-56	24,000	12,830
1956-57	22,000	14,700
1957-58	24,000	13,067
1958-59	24,000	12,210
1959-60	28,000	19,000
1960-61 (estimated) ..	25,000	..

Price Range for Monthly Delivery in Cochin

(Per cwt.)

1960	Highest Rs.	Lowest Rs.
March	375	252½
May	330	210
July	360	292½
August	352½	275
October	301	221½
December	252½	190½

Comparative Table showing Export of Black Pepper from Singapore and India and also Export to U.S.A. from Singapore and India

(In tons)

	Total export of black from Singapore	Total export of black from India	Export to U.S.A. from Singapore	Export to U.S.A. from India
1959				
November ..	1,000	1,683	397	373
December ..	1,070	2,633	711	1,862
1960				
January ..	616	3,794	371	2,635
February ..	350	2,501	163	1,388
March ..	336	1,983	93	1,095
April ..	520	1,362	285	349
May ..	1,064	1,359	655	248
June ..	949	800	462	102
July ..	1,565	584	1,041	35
August ..	1,743	588	564	55
September ..	1,361	877	403	117
October (estimated)	1,800	1,300	1,350	300

the harvesting in Lampong, a fair-sized floating stock both with dealers and the growers on the coast, the weakness in Singapore, the fear of impending arrivals of Lampong and Sarawak at that port, the resistance to higher price on the part of spice mills in Europe and grinders in the U.S., the slow demand both from Europe and the U.S. despite the fact that grinders should buy ere now for grinding and packing for the prospective sales to chain stores and other consumers for the coming autumn potential demand, the closure of the Palai Central Bank Ltd., which had about 90 branches all over Kerala (Malabar) and was considered one of the biggest banks in the State, financing various small banks in the area, and the heavy unsold consignments of pepper to the U.S. by Singapore interests—these were the chief factors responsible for the stalemate during the month.

Last Quarter

The months of September, October and November saw the New York market moving both ways, the highest and the lowest levels seen being $0.56 and $0.45. Prices of Malabar pepper moved between Rs. 1,500 and Rs. 1,150 according to the tempo of buying and selling bouts by the bulls and bears. Singapore moved rather violently under the manipulations of speculators, the lowest and the highest touched for white pepper being Str.$227½ and Str.$290, respectively. Str.$140 in the lowest and Str.$190 in the highest were quoted for black. Rumours of buying a sizable quantity by Russia and the East European countries proved a supporting factor to Malabar, but the actual quantity taken up by these countries having proved short of expectations, the morale of the market was affected both in ready and forward. Despite serious efforts by the bulls, October delivery toppled down to Rs. 221½, bringing in its trail financial difficulties. Emergency on the Pepper Exchange having been declared and the bottom prices for October and December delivery having been fixed, the hedge sellers on the Exchange were left without cover. They were left to the mercy of either local or foreign buyers for the disposal of their stocks, particularly at a time of the beginning of the new season. Ready garbled peppers went abegging and were sold at Rs. 190. Indian shippers were encouraged to send consignments to New York, particularly when they saw that there was a big difference of 7 cents between the price of spot and shipment. The Singapore syndicate and other merchants were also reported to have shipped sizable consignments to the port. The recent heavy drop from $0.56 to $0.46 was attributed to the pressure of unsold consignments both from Singapore and India.

Cochin Futures in Trouble

The declaration of emergency in the futures market at Cochin evoked severe criticism from the trade. It was stated to be an effort to square up past sales of operators at the floor prices fixed by the Indian Pepper and Spice Trades Association, which were said to be quite unfavourable to the hedge sellers. It was also reported that several traders in Cochin had been carrying forward their purchases since several months and October was the last delivery month. Pepper prices in Cochin had declined by only Rs. 30 per cwt. and this fall was not unusual for a highly speculative commodity like pepper, the price trend of which depended mainly on overseas demand. Probably the Association had to declare an emergency, because the sales in the futures market there could not be fully absorbed by the operators. The Association was no doubt empowered by its by-laws to declare an emergency and close the market for five days, but, for a long closure and for any decision to square up the deals at the floor prices, it had to seek the sanction of the Forward Markets Commission. In this context, it would appear that the move to set up a futures market in Bombay also for pepper should be welcome, because Bombay ring would provide a healthy and complementary market for Cochin and thereby help keep fluctuations within reasonable bounds. It was surprising that, though the Central Government had approved of the second ring for pepper in Bombay at the recommendation of the Forward Markets Commission, the decision had remained unimplemented till the time of writing this report.

Market circles are now busy assessing the outlook for Malabar black pepper in the coming year. As the busy season advances on the West Coast, the impact of new arrivals will be keenly felt. In the meantime, if there is no aggressive buying either from New York or from Russia and her friends, the market is likely to go down still further. The consensus of opinion appears to be that the market cannot remain immune to the bear psychology created by the statistics of world pepper production which is considered to be more than what is required for consumption. The stringency in the money market and the policy of the Indian Government to hold the price line of all commodities, in general, are also considered as bearish factors for the future.

Indonesia

Known as "Spice Islands," Indonesia is a very important producer of pepper, both white and black. Although the country suffered from a severe drop in the production of pepper during the Japanese occupation and the years of struggle for independence thereafter, production is now following an upward trend. Indonesian exports of spices, in the order of their importance, are pepper, nutmeg, cassia and mace. During the Japanese occupation and thereafter for some time, the Indonesian export of pepper was reduced to *nil*, as many of its pepper gardens were either destroyed or abandoned. After the Second World War, Indonesian pepper production was merely a fraction of its pre-war output which was averaging 50,000 tons per year. After independence, new vines were sown which are now bearing pepper, with the result that the pepper crop in Indonesia is likely to increase from year to year, barring such natural calamities as flood, drought, yellow disease, cyclone, etc. The production of pepper in Indonesia during the years 1952 to 1959 moved between 10,000 and 13,000 tons. This year's increase in production is attributed to the full bearing of vines sown earlier. The favourable climate also contributed to the present larger crop which is estimated to be more than 20,000 tons in Lampong and 6,000 to 7,000 tons in Muntok. With the exit of foreigners from Indonesia, most of the export trade suffered. But things are now reported to be improving and many of the Indonesians are said to be conducting export trade efficiently. Daily fixing of "check prices" for the export of various produce by the Indonesian Government without reference to the actual buying quotations in the consuming markets is making export difficult. Transport difficulties throughout the country is one more headache for the exporters. In the larger interests of the export trade, the Indonesian Government should not place unnecessary obstacles by way of fixing higher "check price" for Singapore, as the major part of the export of the Indonesian produce is handled by Singapore.

Sarawak

The production of pepper in Sarawak is estimated this year at 8,000 tons (6,000 tons white and 2,000 tons black). Such a smaller production is said to be due to over-manuring of pepper vines, because of the very fancy price available during the later part of 1959, and the earlier part of this year. A special feature of the year was the big difference between the price of white and black pepper which at times stood at more than Str.$150 per picul.

For stabilising the pepper prices in Sarawak, the Sarawak Government set up an independent organisation, called the Sarawak Development Finance Corporation. The company extended all facilities to growers, dealers and exporters. Following are some of the facilities available to all pepper-growing areas in Sarawak:

1. The instrument of charge to secure loan from the company will be free from stamp duty.

2. 75 per cent. of the value of pepper published in the *Government Gazette* on the day pepper is deposited will be advanced. The maximum advance of Str.$200 per picul in case of white pepper and of Str.$75 per picul in that of black pepper.

3. Interest will be charged at 7 per cent. per annum and storage rent at the rate of half a cent per picul per day will be charged for the period of time the pepper lies in store with the company.

Most of the pepper interests in Sarawak took the advantage of these facilities and that was one of the reasons why Sarawak growers and dealers did not come out as was usual with them, to sell their produce at the best market price during the harvesting season.

Notice

NEW CENTRAL JUTE MILLS COMPANY, LIMITED

NOTICE

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of the Company will be held on Wednesday, the 18th January 1961, at 12 noon at the Registered Office of the Company at 11, Clive Row, Calcutta, to transact the following business:—

(i) To receive and adopt the Directors' Report and the audited accounts of the Company for the year ended 31st March 1960.

(ii) To declare dividends.

(iii) To elect a Director in place of Shri A. K. Jain who retires by rotation but, being eligible, offers himself for re-election.

(To be proposed as Special Resolution under section 261 of the Companies Act)

(iv) To appoint Auditors for the current year and to fix their remuneration. The retiring Auditors Messrs. N. C. Jain & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.

As Special Business:

(1) To consider and pass the following resolution with or without modification, which will be proposed as a Special Resolution:—

"RESOLVED that the regulations contained in the printed documents submitted to this meeting and for the purpose of identification subscribed by the Chairman thereof be and the same are hereby approved and that such regulations be and they are hereby adopted as the Articles of Association of the Company in substitution for and to the exclusion of all existing Articles thereof."

(2) To consider and pass the following Resolution which will be proposed as 'Special Resolution':—

"RESOLVED that Shri A. K. Jain, Managing Director and Associate of Messrs. Sahu Jain Limited, the Managing Agents of the Company, be and is hereby appointed a Director of the Company liable to retire by rotation u/s 261 of the Companies Act 1956.

(3) To consider and pass the following Resolution with or without modification, which will be proposed as an Ordinary Resolution:—

"RESOLVED that the appointment of Messrs. Ashoka Marketing Ltd. as sole selling agents of the Company for the sale of Soda Ash, Ammonium Chloride Fertiliser, Muriate Ammonia and Anhydrous Ammonia Gas for the whole of India, on the terms and conditions enumerated in the Agreement, submitted to this meeting and already approved by the Board of Directors of the Company be and is hereby approved and confirmed."

Share Transfer Books of the Company will remain closed from 4th January 1961 to 18th January 1961, both days inclusive.

N.B.—A member entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of himself and the proxy need not be a member.

For NEW CENTRAL JUTE MILLS CO. LIMITED,

For SAHU JAIN LIMITED,

A. K. JAIN,
Managing Director,
Managing Agents.

Dated Calcutta,
The 17th December 1960.

Explanatory Note to Resolution No. 1: The Articles of Association of the Company were in accordance with the provisions of the old Companies Act. In view of the changes effected by the new Companies Act, it is considered desirable by your Directors to adopt a new set of Articles for the Company in order to bring them in conformity with the provisions of the present Companies Act. The consent of the shareholders is sought to the proposed resolution as above.

Explanatory Note to Resolution No. 2: Shri A. K. Jain who was elected as Director of the Company by Special Resolution of the shareholders passed in the Annual General Meeting held on 31st July 1958 now retires by rotation being an Associate of the Managing Agents of the Company. His election requires the consent of the shareholders by way of special resolution, as required u/s 261 of the Companies Act. Shri S. P. Jain, Chairman of Sahu Jain Limited, is father of Shri A. K. Jain and Shri A. P. Jain, Director of Sahu Jain Limited.

Explanatory Note to Resolution No. 3: Messrs. Ashoka Marketing Limited have been dealing with chemicals and have got organisation well established in different places in the country. It has been considered expedient that the Company should avail of the sale organisation of Ashoka Marketing Limited. The Board of Directors of the Company has approved the appointment of Messrs. Ashoka Marketing Limited as Company's Sole Selling Agents for the sale of Soda Ash, Ammonium Chloride, Fertiliser, Muriate Anhydrous Ammonia Gas for the whole of India for a period of 5 years with effect from 1st September, 1960 on a commission of Rs. 7.50 nP per tonne on Soda Ash and 2½ per cent. on the sale of other products (excluding Ammonium Chloride Fertiliser) and on the terms and conditions contained in the relevant agreement. A copy of this agreement is available for inspection to the members on all working days during business hours at the Registered Office of the Company and the same will be placed before the Shareholders at the above meeting. The appointment as Sole Selling Agents requires approval of the shareholders u/s 294 of the Companies Act 1956.

The Managing Agents and the Directors of the Company have no interest in the said arrangement or agreement.

GIVE YOUR WARE

P L M

CARE



PACK your goods securely in strong cases, bags or containers, following special packing conditions when prescribed.

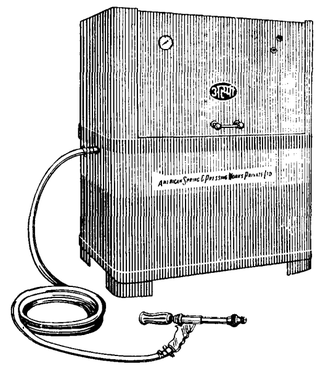
LABEL your packages clearly by affixing fresh labels, containing full address of the Consignee — remove all old labels and their traces.

MARK your packages correctly and clearly in bold letters with consignee's full address and destination station and with your private identification marks. Obliterate all old marks to avoid mis-despatch of your goods to a wrong destination.

DON'T FORGET
A little 'PLM' care will go a long way to save you unnecessary worry and expense.



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HIGH PRESSURE HYDRAULIC

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Manufactured by

American Spring & Pressing Works
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SERVICE AFTER SALE

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Every day in some way you use an

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Here are some of the many battery applications served by EXIDE



ELECTRICITY SUPPLY COMPANIES
Switch Tripping & Closing, Control Bus Operation, Power Regulation, Exciter Power, Standby Power, Emergency Power & Lighting



AIRCRAFT
Aircraft Starting, Lighting, Navigation Instrument Operation, Radio Receiving & Transmission, Aerial Photography, Landing Gear, Emergency Power, Ground Starter Trolleys



AUTOMOTIVE
Passenger Cars, Commercial Vehicles, Tractors, Road Rollers, Fire Engines, Ambulances, Police Patrol Cars, Taxicabs Buses & Coaches, Earthmoving Equipment, Compressors, Special Vehicles



WIRELESS
Receiving, Photograph Transmission, Broadcasting Power & Protection, Studio Emergency Lighting, Public Address Systems, Police Radio Systems



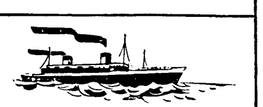
RAILWAY DUTIES
Train Lighting & Fans, Air Conditioning, Signalling, Diesel Locomotive Starting, Centralised Traffic Control, Railway Electrification



INDUSTRIAL USES
Fork Lift Trucks, Platform Trucks, Tractors, Crane Trucks, Power Hand Trucks, Dump Trucks, Electric Mine Locomotives, Mine Shuttle Car Service, Battery Trolley Locomotives, Diesel Battery Locomotives



TELECOMMUNICATIONS
Telephone Exchanges, Telegraph, Telephoto Transmission, Telephone Services



MARINE
Alarm Systems, Fire Detection Systems, Radio Receiving & Transmission, Direction Finding Equipment, Emergency Lighting

MISCELLANEOUS Blasting—Laboratories—Electric Master Clocks—Electro Plating—Electric Welding—Portable Oscillographs—Portable Searchlights—Scientific Instruments—Sound Recording—Sound Production—Operating Theatre Emergency Lighting—Estate Lighting

EBSC-45

Private Collieries Fulfil Their Second Plan Target

Government Amends Its Policy Slightly

THE most notable development of the year 1960 so far as the coal industry is concerned was the slight modification of the Government's coal policy in respect of the private sector. This change of heart came too late in the year, which almost coincides with the final year of the second Five-year Plan, to have any effect on coal production during the year, which, though a little higher than in the previous year, was very much behind the requirements of various industries. The shortage was so acute, particularly in respect of coking coal, that the steel plants, railways and a number of factories could not operate to their full efficiency. This was due to four factors: (1) the pace of increase in output, especially in the public sector, was slow; (2) the ash content of the coking coal was high and there was considerable delay in the setting up of washeries; (3) there was a general deterioration in the quality of coals raised; and (4) the transport position also was unsatisfactory, with the result that stocks of coal at pit-heads began to accumulate. The year under review saw completion of the second Plan target by the private sector, the fixation of the target of coal production for the third Plan and the endorsement of the same by the Coal Council of India.

World Bank's Interest

To a large extent, the change in coal policy was a sequel to the report of the World Bank Mission on the coal policy. The Mission was of the view that the expansion of the private sector had been restricted as an act of Government policy, which had reserved the opening up of new areas to the public sector. Price control had also discouraged the private companies from investing more in the industry. While sympathising with some of the considerations underlying the Government's policy, the Mission felt that the way in which this policy had been applied was contrary to the nation's economic interests. It was somewhat candid when it remarked that the "overriding need now is to get more coal quickly and other considerations should be subordinate to this purpose." The specific recommendations made by the Mission were: (1) private collieries should be encouraged to raise all coal they could; (2) restrictions on the issue of new mining leases should be lifted; (3) prices should be adjusted to provide the industry with larger resources for investment and (4) the differential between prices of coking and non-coking coal should be increased. There was nothing new in these recommendations other than what the private collieries had been asking for. Only they came from an august body such as the World Bank.

The Union Minister for Steel, Mines and Fuel, Sardar Swaran Singh's first reaction to this report was that it was "extremely uncharitable." He, however, seemed to realise the gravity of the situation created by the shortage of coal. For, at a meeting with the representatives of the coal industry in Calcutta in October this year, he came to an agreement with the former, under which there will be no ceiling on coal production in the private sector during the third Plan period. It was proposed to work out an additional programme for each colliery, particularly those which were producing or would produce Selected A, Selected B and Grade I coals. The total additional production built up on this basis would be the allocation for the private sector.

Later on (on 17th November), the Minister, in a statement in the Lok Sabha explaining the coal policy, affirmed that there had been no radical change in the Government's basic Industrial Policy laid down in 1956. He disclosed that it was the Government's intention to give special permission to individual units in the private sector to work new and non-contiguous areas where the raising of coal from such areas had to be ensured to make up the total production required. He maintained that this was fully in accord with the Industrial Policy Resolution which had stated that, "where the national interests so require, private enterprise may be allowed to expand." The Government's intention is, it may be noted, not to give general permission to all units and it is in this sense that the modification announced does not involve any drastic change in its policy. Be that as it may, the change of heart can be expected to enable the more efficient and resourceful units to step up their production, provided this permission is accompanied by suitable incentives. The Bengal Coal Company, the foremost coal producer in India, has already announced its decision to raise fresh capital for expansion through a new issue of 20,000 equity shares of Rs. 100 each at a premium of Rs. 100 each which will yield a sum of Rs. 40 lakhs. This is the first equity issue by an existing coal company after a long, long interval and as such is a landmark in the history of coal industry.

Third Plan Target

The Coal Council endorsed, towards the close of the year (in November), the target for coal production, namely, 97 million tons per annum by the end of 1965-66, fixed under the draft third Plan, as against 110 million tons recommended by the Working Group on Coal. This represented an additional production of 37 million tons over the target fixed for the second Plan and the Council approved of the allocation of this additional production between the public sector and private sector at 20 million tons and 17 million tons, respectively. The increase comprises 11 million tons of coking coal, 2 million tons of blendable coal and 24 million tons of non-coking coal. Of these, the public sector would undertake to produce 6 million tons of coking coal, 1 million tons of blendable coal and 13 million tons of non-coking coal. The balance in each category would be produced by the private sector. These limits, however, as Sardar Swaran Singh stated in the Lok Sabha earlier, were not meant to be rigid and either sector might be called upon to undertake additional responsibilities, as and when necessary.

The achievement of this target is not an easy task. In the first instance, the additional production to be achieved by the end of the third Plan is not 37 million tons, but much more. For there is a substantial shortfall in output during the second Plan from the target fixed for it. As will be seen from the accompanying table, the production during the first nine months of 1960 was 37.88 million tons, as against 35.34 million tons in the corresponding period of 1959. On the basis of the average production during this period, the output for the whole year may be of the order of 50.51 million tons. This figure is 9.5 million tons behind the second Plan target of 60 million tons. On the basis of the break-up figures available so far, it is estimated that the private sector's share in the total output for the year will be 45 million tons, thus fulfilling its second Plan target. The public sector's share is 5.5 million tons. This means that the entire shortfall in the target, namely, 9.5 million tons, is due to the failure of the public sector to come up to expectations. The additional burden on the public collieries to achieve their target during the third Plan period will be 29.5 million tons. A part of this burden is likely to be taken up by the private sector if the latest amendment to the coal policy works well. In other words, to the extent the public sector collieries are not able to achieve the additional production—the chances are that they will not be able to do it—the private sector collieries should be enabled to make good the shortfall, if the overall target is to be achieved and the industries are not allowed to suffer from want of sufficient coal. And the latter can do the job only if the green signal is given sufficiently early.

It will thus be noted that the responsibility for the present shortage of coal in the country rests squarely on the shoulders of the collieries in the public sector. It is also due to the Government's negative policy of not allowing the private sector collieries freedom to expand. The shortage of coal during the year under review was so acute that the two private steel plants could not operate to their full efficiency. There was also a setback in production by the two public sector plants at Rourkela and Bhilai. It also delayed the commissioning of the third blast furnace in each of these two plants and the starting of the plant at Durgapur. The shortage of coal was aggravated by two factors, namely, the inadequacy of transport and the delay in the establishment of coal washeries in the public sector to reduce the high ash content, for which Indian coal is noted. Though the average daily loadings during the year were higher than in the previous year—they were 4,249 wagons from West Bengal and Bihar coalfields in the first ten months of the year, as against 4,028 wagons in January-October 1959—they were found inadequate to move the increased production of coal. For, as will be seen from the accompanying table, the increase in despatches was less than that in production, with the result that stocks at pit-heads were higher.

Raisings and Despatches of Coal
(In million tons)

	Raisings		Despatches	
	1960	1959	1960	1959
January	4.116	4.086	3.605	3.436
February	4.296	3.938	3.527	3.112
March	4.364	3.957	3.758	3.486
April	4.382	3.984	3.747	3.529
May	4.351	4.014	3.605	3.396
June	4.141	3.814	3.690	3.355
July	3.977	3.860	3.570	3.593
August	4.119	3.750	3.847	3.608
September	4.132	3.936	3.896	3.584
Total, Jan.-Sept. ..	37.878	35.339	33.245	31.099
Whole of 1959	....	47.059	....	41.603
„ 1958	....	45.340	....	40.343
„ 1957	....	43.504	....	37.686
„ 1956	....	39.431	....	34.959
„ 1955	....	38.226	....	32.941

Washeries

The delay in the establishment of washeries in the public sector proved to be a serious handicap to steel plants. Out of the four proposed washeries to be set up, only one at Kargali has been commissioned with a productive capacity of 100,000 tons of clean coal per month. The one at Dugdah, with a capacity of 1.8 million tons of washed coal per annum, is expected to go into production only in 1961. The other two will take a longer time. It was originally expected that all the washeries, including the ones in the private sector, would produce 9 million tons of clean coal per annum by the end of the second Plan, but this expectation has been belied.

The magnitude of the problem can be guessed from the fact that the requirements of the steel industry have grown from 3.3 million tons in 1956 to 12 million tons at present and, by the end of the third Plan, they are expected to go up to no less than 23 million tons per annum. As against this, the existing washeries, installed or under erection, are sufficient to produce only 12 million tons. This means that the additional capacity to be set up during the third Plan period is 11 million tons. This problem was discussed by the Coal Council at its meeting in November last and a committee was set up to examine the question of expediting the setting up of washeries. The Committee will also examine the problem of utilising the 6 to 7 million tons of "middlings" from the washeries for power generation.

While the performance of the private sector collieries during the second Plan period has been satisfactory, in that they have been able to fulfil the target allocated to them, they would have done better had they received an economic price, which would allow a reasonable return on the capital employed, and sufficient assistance for stand-stowing. During the year under review, the industry was granted an increase of 81 nP per ton in April and another increase of 6 nP in September in the price to cover the additional incidence of labour costs resulting from the Arbitrator's award and the Mines (Amendment) Act, 1959. The industry's case for a price increase on the ground of higher manufacturing costs and greater need for augmenting its internal resources for reinvestment is yet to be fully conceded by the Government.

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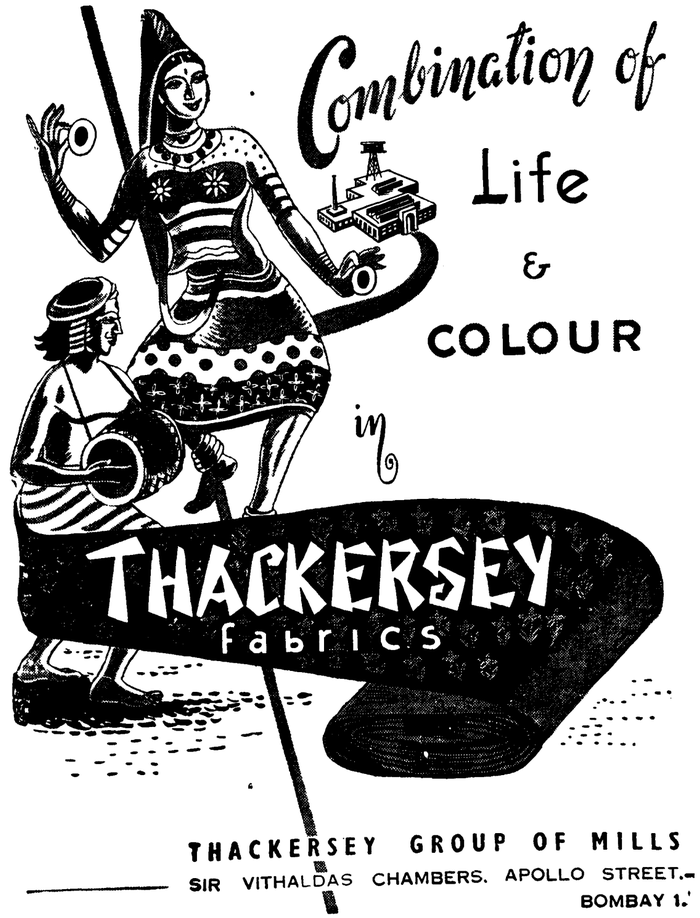
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RAW COTTON POSITION MUCH BETTER NOW

RISE IN PRICES NEUTRALISED BY LOW YIELD PER ACRE

THE position of raw cotton at the end of the calendar year 1960 is fairly bright, in refreshing contrast to the gloom that enveloped it at the beginning of the year. This improvement is due mainly to the fact that Dame Nature, after her last year's fury, has started smiling again. The prospects for the 1960-61 crop is, therefore, encouraging. The 1959-60 season (September to August) proved to be one of the worst years for Indian cotton for consumers and growers alike. The former had to pay a high price for their requirements of cotton, but this did not mean any significant appreciation in the return for all farmers, for, in most parts of the country, the crop was adversely affected by unfavourable weather. Production was one of the lowest for many years, imports had to be raised to double the normal quantity and exports dwindled to a mere trickle. The Government had to step in to regulate distribution. In order to ration out the limited supplies to mills at reasonable prices, quota system and quality controls were introduced. Normal trade and distribution channels were upset. The futures contract was rendered practically useless as a hedging medium and the season ended casting its dark shadows far into the present season.

Supply and Distribution

The following table shows at a glance the supply and distribution of cotton during the season, as compared with the 1958-59 season:

(In 1,000 bales of 400 lbs. each)

	1959-60	1958-59
Supply :		
Stocks (beginning of season) :		
Indian cotton	1,850	2,045
Foreign cotton	185	156
Commercial production ..	3,810	4,850
Non-commercial production ..	212	270
Imports	980	491
Total ..	7,037	7,812
Distribution :		
Indian cotton :		
Estimated exports	200	401
Mill consumption	4,419	4,616
Village consumption ..	212	270
Foreign cotton consumption.	686	455
Total ..	5,517	5,742
Stocks (end-season) :		
Indian	1,035	1,850
Foreign	450	185
	35*	35*
	7,037	7,812

* Utilised by Khadi Board and surgical dressings manufacturers.

Contrary to earlier expectations, production of cotton during the season declined to a mere 3.80 million bales (of 400 lbs. gross each), as compared with 4.85 million bales in the previous season. The season started on a fairly optimistic note. Sowings, no doubt, were late which cast doubts on prospective yield. Area sown to cotton was also less than in the previous season. Consequently, a crop smaller than the previous season's was not unexpected, but the adverse turn in weather in September and October was a painful surprise and set at naught all previous calculations. As a result, the crop turned out to be as much as 1.4 million bales less than the earlier estimates. Weather, especially in the central belt, Omras, Gujarat and Saurashtra, was the most adverse in living memory. Heavy and incessant rain not only retarded crop development but actually destroyed cotton plants. Wet and cloudy weather at the most unwanted time did untold harm to yield and quality. The crop in the Punjab fared better by comparison, although the wet spell early in November and waterlogging damaged an otherwise satisfactory crop. The crop picture in South India presented a mixed pattern. Thus, while in the Comptah and rain-fed areas of Madras State, drought conditions affected crop developments, in Western and irrigated areas the crop was fairly good.

As a result of adverse developments, crop estimates had to be scaled down month after month. From a high of 5.2 million bales early in July, and 4.8 million bales in early October, they were reduced progressively to 3.8 million bales in February-March.

The crop of 3.8 million bales was harvested from an area of 19.25 million acres, as compared with 19 93 million acres in the previous season. Thus, acreage unler cotton declined by 3.4 per cent. and production by 18.2 per cent. This indicates the deterioration in yield which works out to hardly 78 lbs., as compared with 92.1 lbs. in the previous season. It will also enable one to appreciate the fact that, although the mills paid more for cotton, the grower's income per acre was scarcely any better.

A noteworthy feature of cotton production during the 1959-60 season was the change in the relative share of different staples. Although total output declined, long-staple cotton accounted for 43.6 per cent. of total production, the highest ever reached since Partition; its share in the 1958-59 season was as high as 34.8 per cent. Medium staples accounted for 39.8 per cent. and short staples for 16.6 per cent., as compared with 48.7 per cent. and 16.5 per cent. respectively, in the previous season. The following table gives composition of the crop according to staple length:

(In 1,000 bales of 400 lbs.)

Season	A	B	C	Total
1955-56 ..	1,577 (39)	1,781 (44)	682 (17)	4,020 (100)
1956-57 ..	2,018 (42·50)	1,950 (41·25)	767 (16·25)	4,735 (100)
1957-58 ..	1,760 (37)	2,122 (45)	857 (18)	4,739 (100)
1958-59 ..	1,637 (35)	2,293 (49)	775 (16)	4,705 (100)
1959-60 ..	1,674 (43.6)	1,523 (39.8)	638 (16.6)	3 835 (100)

Note : Figures in brackets are percentages to total. A—Long staple (1" and above); B—Medium staple (below 1" and above 11/16"); C-Short staple (11/16" and below).

An unfortunate feature of the crop during the season under review was the deterioration in quality. Crops that suffered most quantity-wise, generally speaking, also turned out to be the least satisfactory from the point of view of quality also. Total failures from the standpoint of quantity as well as quality, were Jarilla 197/3 crop of the Oomra belt, Kalyan of N. Gujarat and Wagad, Kalagin/, Mathia crops of Saurashtra—all in the lower medium and short-staple category, the bread-and-butter cotton of the Indian cotton textile industry. Qualitatively and quantitatively, Punjab American H-14, Vijay-Surti in Gujarat and Jayadhar in the Comptahs were below normal. The only crops that fared reasonably well were Bengal *Deshi* and Punjab American 320F in the North, most of the Buri American in the Oomras, Gaoranis in the South. Farm and Laxmi in the Western/Comptahs and irrigated medium and long-staple cotton in the South.

Statewise, the decline in production was as much as 29 per cent. in Bombay (undivided), 25 per cent. in Mysore, 18 per cent. in Madhya Pradesh, 14 per cent. in Rajasthan and 11 per cent. in the Punjab.

At the Mercy of Weather

The experience of the 1959-60 season once again underlined the pathetic dependence of cotton production on the monsoon and other weather conditions. And there is little prospect of the situation changing materially in the near future. For only 12 per cent. of the total area under cotton is irrigated at present. By the end of the third Plan, this is expected to increase to 20 per cent. Even if the Plan target for irrigation is achieved, 80 per cent. of the area would still be rainfed and this will continue to inject an element of uncertainty in cotton production. If, therefore, the third Plan target of 7.2 million bales is to be achieved, reliance has perforce to be placed on other methods such as use of better seeds, improved cultural practices and plant protection measures. If supplies of fertilisers to irrigated tracts can be increased, the yield per acre in these areas will substantially increase and enable farmers to bear a larger tax burden. More emphasis, therefore, needs to be laid on fertiliser production in the third Plan, if the targets for cotton are to be reached in time. Growing cotton in rice fallows holds out considerable promise for increasing the total output. It is estimated that, in Madras, Mysore, Andhra Pradesh and Orissa, about 1.15 million acres of rice fallows are available, which, if cultivated under cotton, could give an additional production of 500,000 bales of medium and long-staple cotton. The Indian Central Cotton Committee expects that this could be of considerable help in achieving the third Plan target of 7.2 million bales.

In order to compensate for the fall in indigenous production and to enable mills to maintain their production, the Government had to allow, inspite of foreign exchange difficulties, imports more liberally during the season than in any previous years. In fact, even imports of medium-staples (1" staple and below), which were prohibited hitherto, had to be allowed. Only, the authorities took a long time to make up their minds. This delay not only led to a rise in the prices of domestic cotton but also resulted in India having to pay higher prices for foreign cotton. Total import quotas issued during the season were of the order of 1.26 million bales. This included 140.000 bales announced on 31st August 1959, but excluded the advance quota of 400,000 bales announced on 29th July, 1960 for the current (1960-61) season. Actual arrivals are tentatively estimated at 939,491 bales, as against 491,192 bales in the previous season. The following table gives the sources of imports and the varieties imported:

(In bales of 400 lbs. each)

Variety	1959-60	1958-59
American	372,165	92,842
Sudan	119,402	125,048
Egyptian	214,251	67,869
East African	176,247	196,748
Pakistan	24,740	..
Others	23,686	7,685
Total ..	939,491	491,192

Exports Decline

The drastically low indigenous crop, naturally, left little cotton for export. Accordingly, only 150.000 bales of Bengal *Deshi* cotton were released for export during the season. Exports of Assam Comilla, Zoda cotton and yellow packings continued to be allowed freely. The destination-wise breakdown of exports is as follows:

(In bales of 400 lbs. each)

Destination	1959-60	1958-59
United Kingdom	1,827	9,062
Continent	10,497	32,167
Hong Kong	8,159	42,075
China	..	8,576
Japan	158,730	296,799
U.S.A.	7,950	9,061
Other countries	1,259	2,971
Total ..	198,422	400,781

Mill consumption of cotton during the season amounted to 5,105,085 bales, comprising 4,419.307 bales of Indian and 685,778 bales of foreign cotton, as compared with 5,071,734 bales in the previous season, made up of 4,616,328 bales of Indian and 455,406 bales of foreign cotton. Thus, while Indian cotton consumption during the season declined by 4.27 per cent., foreign cotton consumption improved by over 50 per cent.

The following table indicates the monthly trend of consumption of Indian and foreign cotton during the 12 months ended 31st August 1960:

(In bales of 400 lbs. each)

	Indian	Foreign	Total
1959 :			
September ..	396,354	42,154	438,508
October ..	395,050	39,728	434,778
November ..	383,981	37,028	420,949
December ..	408,137	40,848	448,985
1960 :			
January ..	392,734	42,826	435,560
February ..	360,175	45,383	414,558
March ..	361,409	54,576	415,985
April ..	349,563	60,499	410,062
May ..	341,485	64,412	405,897
June ..	337,951	71,781	409,732
July ..	350,588	86,079	436,667
August ..	332,900	100,464	433,364
Tota ..	4,419,307	685,778	5,105,085
1958-59 season ..	4 616,328	455,406	5,071,734
Difference ..	—4.27%	+50.59%	+0 66%

It is evident from the above table that monthly consumption of indigenous cotton declined steadily from January 1960 to reach the season's lowest level of 332.900 bales in August 1960, as compared with 408,137 bales in December 1959 while consumption of foreign cotton rose progressively to touch an all-time peak of 100.464 bales in August 1960, as compared with 37,028 bales in November 1959. This indicates the extent to which mills had to substitute Indian cotton by foreign growths due to the scarcity of the former.

The sharp fall in production and the consequent non-availability of cotton in adequate quantities were reflected in a spurt in Indian cotton prices. By the end of December 1959, it became clear that the country was heading for a virtual cotton famine. Prices of all varieties advanced almost uninterruptedly from the beginning of the season. By the end of June, they had risen to the highest level recorded in the history of cotton in India.

Quality Control

The shortage of cotton and the consequent spurt in prices forced the Government to introduce a system of quotas and quality control to ensure equitable distribution of the available supplies and curb further rise in price. Each mill was allotted quotas for Indian cotton and was forbidden to buy more than its fair share of cotton available. These quotas were issued in instalments, thereby forcing the mills to spread their purchases over the whole season. Quality control introduced by the end of December stipulated that all cotton deliveries were to be compulsorily surveyed by official surveyors if the cotton was sold above a maximum price prescribed for that purpose. Mills were also advised to utilise their import allocations for buying foreign cotton in full and that too as expeditiously as possible and thereby help lesson the pressure on Indian cotton prices. Free trading was also controlled with effect from 1st August, 1960 by stipulating that a trader could sell cotton only to a mill nominated by the Textile Commissioner at a price not above the maximum price fixed in an official survey to which each lot thus sold had to be submitted.

Policy for 1960-61

The Government's cotton policy for the 1960-61 season, which started on 1st September 1960, was also geared to holding the price line of cotton. The main features of the new season's policy are:

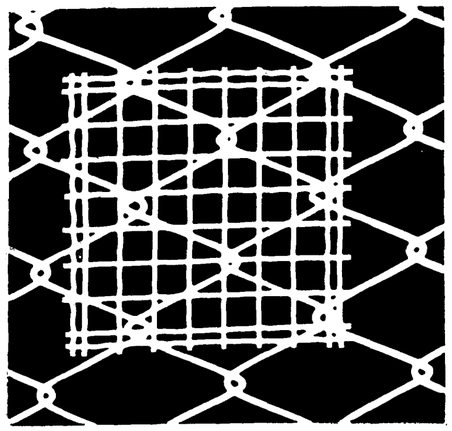
1. The floor and ceiling prices in force during 1959-60 will be maintained in 1960-61 also, except for a few minor adjustments. (2) Each and every lot will have to be surveyed by the sworn surveyors of the E.I.C.A. or a regional committee set up on its behalf. (3) Each lot will have to be accompanied by an official survey certificate, stipulating the maximum price permissible under the ceiling price schedule, which shall be binding on buyers and sellers. And (4) mills' freedom to buy will continue to be restricted to quota issued to them from time to time.

Unlike in the previous season the Government was very vigilant in enforcing the controls from the very beginning of the current season. In order to make sure that prices did not exceed the ceilings, the Government not only staggered the issue of quotas, but also resorted to random requisitioning of cotton in different parts of the country. This practice has so far had a salutary effect and, though the statistical position of cotton is by no means comfortable, prices have been ruling well within the ceilings.

New Crop Prospects

It is with the utmost anxiety that every one concerned is watching the progress of the new crop. The crop had a promising start and, barring setbacks in some regions, progress of harvesting has been satisfactory up to the time of writing (second week of December). The current expectation is that the crop this season will be of the order of 5 million bales. But even a good crop of this magnitude will only be sufficient to make good the last season's shortfall. It may be noted, in passing, that this figure is far below the second Plan target of 6.5 million bales. The Government has, however, promised adequate supply of foreign cotton to make up the decline in production. It has assured the mill industry that in no case would the production of yarn and cloth be allowed to suffer due to lack of cotton. The Government is also negotiating with the U.S. authorities to bring in further large quantities of U.S. cotton under P.L. 480.

All these factors indicate that the supply position of cotton during the current season will be a little better than in the previous season, but the improvement will not be large enough to make the situation comfortable for every one.



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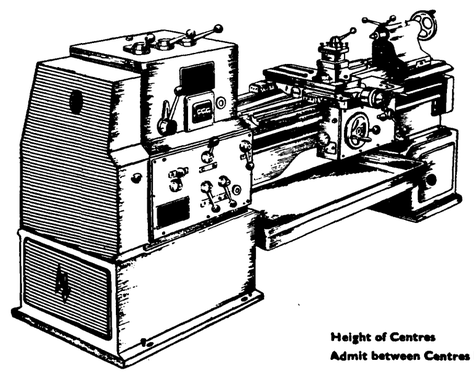
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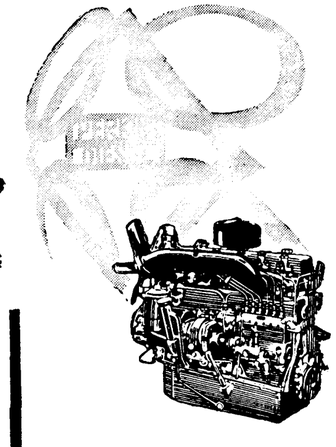
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Cotton Mills Work On High Cost Base

Domestic Consumption and Exports of Cloth Recede

THE cotton mill industry was in a state of distress during the year 1960. Besides experiencing considerable difficulty in securing adequate and regular supplies of raw cotton at reasonable prices in view of the distinct setback to the crop, the mills had to work on a markedly high cost base practically throughout the year. This was due to the appreciable rise in cotton prices, heavier wage bill, and enhanced prices for chemicals, dyeing materials and coal, not to speak of the continued heavy tax impost, direct and indirect. The all-India average wholesale price index of raw cotton (base: 1952-53=100) for the first nine months of 1960 stood at 113, as against 102 in the corresponding period of 1959, representing a rise of 10 per cent. The basic monthly wage of a mill worker was stepped up by Rs. 8 in some areas (category I) and by Rs. 6 in others (category II), following the Wage Board's award. The amount distributed by way of dearness allowance was also more, as a result of a further increase in cost of living; the average allowance paid to a mill worker in Bombay during the month of October 1960, for instance, was Rs. 88.60—it was higher still at Rs. 90 in the previous month—as against Rs. 86.42 in the whole of 1959 and Rs. 81.58 in 1958.

Considering the shortage of raw cotton, mounting production cost and the continued reluctance of the Government to concede the millowners' plea for an expansion of productive potential, it is, indeed, creditable that the industry was able to maintain a high level of output—cloth and yarn. The total production of cloth during 1960 is estimated at 5,018 million yards (4,588 million metres), as against 4,925 million yards (4,504 million metres) in 1959 and 4,927 million yards (4,505 million metres) in 1958. The estimate is based on the actual output in the first ten months of 1960 which aggregated 4,173 million yards, as against 4,100 million yards in the same period last year. The quantity of yarn spun in 1960 is estimated at 1,716 million lbs. (777 million kilograms, which is, of course, slightly less than the quantity produced in 1959, namely, 1,723 million lbs. (781 million kilograms) in 1959, though a little more than the output of 1,685 million lbs. (764 million kilograms) in 1958. The actual output in the first ten months of 1960 was 1,430 million lbs., as against 1,427 million lbs. a year before.

Trend of Output

The table below indicates the trend of mill cloth and yarn production—month by month—in the past two years:

(Cloth in million yards; yarn in million lbs.)

Month	Cloth		Yarn	
	1960	1959	1960	1959
January ..	417.8	430.1	144.2	150.5
February ..	402.9	391.7	138.8	136.7
March ..	410.3	405.8	139.8	141.5
April ..	408.0	406.9	138.8	139.9
May ..	410.4	405.3	138.7	136.5
June ..	420.8	405.1	142.8	135.7
July ..	431.6	425.5	148.0	146.3
August ..	434.8	403.7	150.1	143.9
September ..	424.7	412.0	146.2	148.1
October ..	411.7	414.3	144.4	147.6
November ..	422.5*	390.5	143.0*	141.5
December ..	422.5*	434.5	143.0*	154.6
Total ..	5,018.0*	4,925.4	1,715.8*	1,722.5

1.0936 yard=1 metre. 2.2046 lbs.=1 kilogram.
* Estimate only.

Despite the maintenance of production at a high level, the total supply (including imports) of mill cloth available for domestic consumption and export was less in 1960 than in 1959, being 5,432 million yards, as against 5,805 million yards. This was due to the appreciable fall in the opening stocks with mills. As a result of the reduction in supply and also owing to consumer resistance to high prices, the consumption of mill cloth within the country suffered a setback; the estimate for the first ten months of 1960 is 3,444.8 million yards, as against 3,867.6 million yards a year before. Reduced offtake for domestic consumption and slower pace of exports led to an increase in the stocks lying with mills, as will be seen from the figures given at the bottom of column one.

(In million yards)

	Jan.-October		Whole of	
	1960	1959	1959	1958
Opening stocks ..	410.6	873.6	873.6	990.0
Production ..	4,173.0	4,100.4	4,925.4	4,927.0
Imports	3.0	5.0	6.0	5.0
Total supply ..	4,586.6	4,979.0	5,805.0	5,922.0
Exports	565.0	699.9	810.0	581.4
Closing stocks ..	576.8	501.5	410.6	873.6
Domestic consumption ..	3,465.3	3,867.6	4,584.4	4,467.0

In view of the reduction in the supply of cloth available for domestic consumption thus, as also of the steeply enhanced cost of production, on the one side, and rising pressure of demand, stimulated by increases in population and money supply, on the other, prices of cloth naturally showed a hardening trend. In some cases, there was a lot of speculation, too, and prices were boosted. This could have been avoided, if only the Government had allowed the industry to expand its weaving capacity and arranged for adequate imports of foreign cotton in good time. That apart, the industry did recognise fully the need for checking the upward trend in prices. On 7th August 1960, the Chairman of the Indian Cotton Mills' Federation announced the decision to lower the retail prices of coarse and medium varieties which were in short supply. The Government, however, was not satisfied with this. Actually, Mr. Lal Bahadur Shastri held out the threat in Parliament that, if the industry failed to reduce prices further, the Government would take effective action to ensure reduction.

Prices Lowered

On 11th August, the Federation announced the downward revision in wholesale prices of all varieties. It called upon the mills not to charge wholesale prices higher than the stipulated percentages on the October 1959 contract rates: 27½ for coarse cloth, 24 for lower medium counts, 20 for higher medium, 12½ for fine categories and 10 for superfine varieties. Still, the Government was not satisfied. It wanted August 1959 to be taken as the basis. On 3rd September 1960, the Federation announced a new schedule of cloth and yarn prices. In respect of cloth, mills were called upon not to charge more than the following additional percentage over August 1959 contract prices as the base, provided that, where the existing contract prices were lower, the cloth would continue to be sold at the lower prices: Coarse, 25; lower medium, 22; higher medium, 18; fine, 11½; and superfine, 9. The revised prices, it was said, would apply to all cloth to be delivered henceforward regardless of the contract prices.

The prices of yarn were also revised and fixed as under:

6s (manufactured from cotton waste), Rs. 13.57; 6s (manufactured from cotton mixing containing not more than 25 per cent. cotton waste), Rs. 15.75; 10s, Rs. 17.75; 20s, Rs. 21.60; 26s, Rs. 24.18; 30s, Rs. 25.32; and 40s, Rs. 28.75. These are the net ex-mill prices for a bundle of 10 lbs. single hank yarn made from Indian cotton only.

The Federation said: "The Government of India have approved the issue of this announcement of revised prices. To ensure that the price reductions made by the industry are passed on to the consumer, the Federation also decided to stamp the new prices on pieces of cloth and bundles of yarn. In respect of cloth, retail prices will also be stamped, which will be 15 per cent. over the ex-mill prices."

Even with all this, the Government was not satisfied and it decided to refer the question of fair ex-mill prices to the Tariff Commission. Even then, Mr. Lal Bahadur Shastri was not tired of warning the industry again. Addressing a meeting at Bangalore on 26th November, he declared: "The Government would take necessary steps to bring down the prices of coarse and medium varieties of cloth, if the textile interests refuse to co-operate." Such frequent threats and warnings are meaningless when the situation is somewhat easier and the prospect of a further improvement is bright. If the improvement is to gather momentum and sustain, the Government must adopt a less doctrinaire attitude with regard to the mill sector and give it all possible assistance and encouragement to step up production.

In the context of the price revisions announced by the Indian Cotton Mills' Federation taking August 1959 prices for cloth as the basis, it was found necessary to ensure, in the interest of consumers, that the textile mills continued to produce the usual varieties for which prices could be compared from time to time with those of the varieties prevailing in the basic period. The Textile Commissioner, therefore, decided to restrict mills from changing varieties and producing new varieties without obtaining his prior approval. A notification to this effect was issued by the Textile Commissioner under the powers vested in him by the Cotton Textiles (Control) Order 1948.

Capacity Utilised

There was more intensive utilisation of mills capacity in 1960 than in 1959. The daily average of workers at work (all departments) were higher in all the three shifts as is evident from the following figures:

	January-September		1959
	1960	1959	
Spindles:			
First shift ..	11,724,886	11,227,858	11,287,877
Second shift ..	11,568,168	10,836,470	10,932,740
Third shift ..	5,960,827	4,807,556	4,940,430
Looms:			
First shift ..	178,479	175,679	175,963
Second shift ..	172,479	167,485	168,254
Third shift ..	42,092	36,908	37,416
Workers at work:			
First shift ..	414,098	416,034	417,000
Second shift ..	262,003	260,452	261,000
Third shift ..	93,258	83,158	84,000
Total—all shifts	769,359	759,644	762,000
Total workers on list (including *badlies*) ..	879,841	883,484	884,028

Note: The above figures are monthly averages.

Although the mills' capacity was more intensively utilised in 1960, the capacity lying idle in first shift was quite large, being almost 13 per cent. in the spinning sector and 11 per cent. in the weaving sector. This was due to the continued closure of as many as 27 mills and curtailment of operations in several others.

Varieties Produced

There was a fall in production of coarse and fine varieties of cloth during 1960, but that was more than made good by the improvement in the output of medium and superfine categories. The latter improvement was due to the larger use of foreign cotton (in view of shortfall of domestic crop) which yields more yardage of cloth for the given weight of cotton. The table below indicates the quantity of different varieties of cloth actually woven in the first nine months of 1960 and 1959, as well as in the whole of 1959 and 1958:

(In million yards)

Categories	Jan.-Sept.		1959	1958
	1960	1959		
Coarse	505	672	802	970
Medium	2,850	2,612	3,500	3,396
Of which:				
Lower medium	1,313	1,277	1,742	N.A.
Upper medium	1,537	1,335	1,758	N.A.
Fine	174	188	242	303
Superfine ..	232	214	291	258
Total ..	3,761	3,686	4,925	4,827

N.A.—Not available.

The production of *saris*, poplin, crepes, twills and fair cords, longcloth, sheeting, sucies, *madapalam* and leno cloth registered an improvement during 1960, while that of *dhotis*, mulls, voiles and dorias, drills, jeans, etc., leopard cloth and markin, shirtings, prints and chintz, coatings, tussores,

Wearables & Non-wearables Packed
(In million yards)

Varieties	Jan.-Sept.		Whole of 1959
	1960	1959	
Wearables:			
Longcloth	676.33	608.22	821.52
Prints and chintz ..	410.32	441.08	588.15
Saris	402.44	366.61	472.64
Poplin, crepes, twills and fair cords ..	360.47	312.73	426.55
Dhotis	332.72	354.00	463.62
Sheeting	330.63	327.98	484.72
Mulls, voiles and dorias	207.51	242.32	329.54
Sucies	181.40	174.14	233.52
Shirtings	173.74	183.50	239.22
Drills, jeans, satin and gaberdine ..	155.23	169.26	223.79
Leopard cloth and markin	115.49	116.75	160.93
Coating, tussores, corduroy and bedford corduroy ..	81.40	95.69	139.12
Dosuti-Dedsuti and Mazri cloth ..	43.44	51.66	74.35
Dupattas, khes,"chola and uparana ..	5.81	5.18	7.78
Leno cloth	6.06	4.25	6.17
Madapalam	20.17	18.68	26.05
Other items	63.63	68.93	95.28
Total wearables ..	3,584.79	3,540.08	4,792.08
Non-wearables ..	151.75	173.94	242.96
Grand total ..	3,736.54	3,714.92	5,035.94

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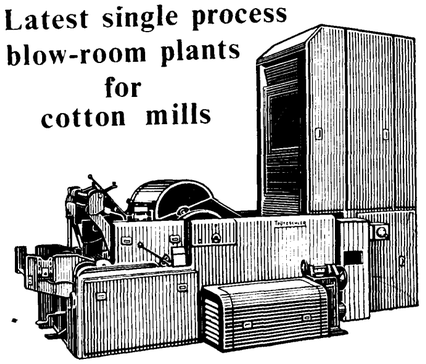
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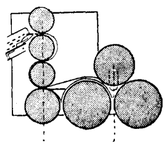
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Looms 224 | Grey Gada
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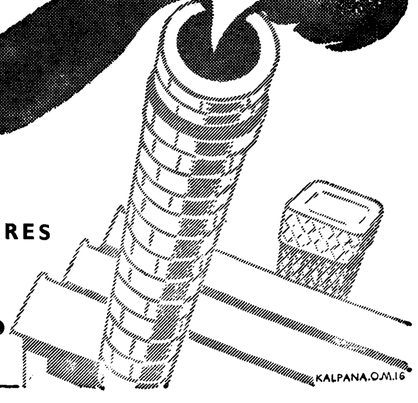
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etc., mazri cloth and dosuti-dedsuti declined. A broad idea of the different varieties of wearable and non-wearable mill piecegoods packed during the January-September 1960 and 1959 periods and in the whole of 1959 can be had from the table at the bottom of column four on page 186.

Barring cotton yarns in the count groups 1s-10s and 11s-20s which suffered a setback to production, the output of all other counts was higher, as is shown below:

(In million lbs.)

Counts	January-September		1959
	1960	1959	
1s-10s ..	128.56	135.78	183.40
11s-20s ..	418.95	487.96	657.91
21s-30s ..	423.33	382.58	514.96
31s-40s ..	215.41	191.13	255.63
Above 40s ..	99.84	81.60	110.90
Total ..	1,186.09	1,279.05	1,722.80

Of the 1,285.48 million lbs. of cotton yarn produced in the nine months ended September 1960, 856.23 million lbs. were consumed within the mills for producing cloth, hosiery and sewing thread yarn. Of the balance, 391.09 million lbs. were delivered for consumption to the handlooms and powerlooms. Considering the availability of adequate yarn supplies and the series of official props, it is not surprising that the estimated total output of handloom and powerloom cloth continued to be high at 2,112 million yards (estimated for 1960), which was, of course, lower than what was produced in 1959, namely, 2,258 million yards.

Cloth Supply Position

The figures cited below indicate the supply position of cotton piecegoods during 1960 (only estimate projected on the basis of latest available statistics) as compared with the position in 1959 and 1958.

(In million yards)

	1960*	1959	1958
Opening stocks† ..	411	874	990
Production	7,193	7,243	7,105
Of which:			
Mill cloth	5,018	4,925	4,927
Handloom ..	2,112	1,907	1,798
Powerloom ..		351	331
*Khadi**	60	60	49
Imports	3	6	5
Total supply ..	7,604	8,123	8,100
Less—Exports ..	740	855	623
Of which:			
Mill cloth	700	815	587
Handloom	40	40	36
Supply available for domestic consumption ..	6,864	7,268	7,477
Per capita availability (in yards) ..	16.8	18.0	18.8
Mid-year population (in millions)	408.1	402.8	397.5

* Estimates only. † Mill cloth only.

Exports

The first six months of 1960 witnessed a notable improvement in cotton textile export trade. The actual shipments of mill piecegoods aggregated 350.73 million yards, as against 303.76 million yards in the same period last year. This improvement was due to a number of factors. These include partial withdrawal of China from the international scene; replacement of textiles under the O.G.L. by the Sudan Government; upsurge in purchase of cloth by the U.K. consequent on the voluntary ceiling for imports from India and the temporary shortage of cloth following the scrapping of nearly 50 per cent. of equipment in U.K. industry; and entry of the U.S. in the international field as a major purchaser of grey and coloured woven cloth in which India's share was sizable. In addition, the continuance of cotton cloth export promotion scheme also gave incentives to exporting mills in the form of special licences for importing raw cotton, coal-tar dyes and chemicals, plant, machinery and spare parts.

Since the beginning of July 1960, however, the pace of export bookings in cloth has slowed down considerably, notwithstanding some refinements in the export incentive scheme permitting imports of certain types of dyes more easily than before. Statistics relating to all-India exports are not available. But figures of shipments from Bombay Port, which accounts for more than 90 per cent. of the cloth exported from India, sufficiently depict the trend. The quantity of mill cloth actually exported from Bombay Port during the period from 1st July to 11th November 1960 was 201.30 million yards (Rs. 15.21 crores), which compares unfavourably with 307.43 million yards (Rs. 19.73 crores) in the corresponding period of 1960. If the setback to exports in the latter half of the current year is taken into account, it is fairly obvious that exports for the whole year will fall below the achievement in the past year.

The decline in the exports of mill cloth from Bombay Port during the first ten months of 1960 as compared with the same period last year was felt by all the sorts, namely, grey, white and coloured. The actual extent of the decline in these sorts was 22.82 million yards, 15.37 million yards and 12.61 million yards, respectively. The table below gives the details:

(In million yards)

Processing sort	January-October		1959	1958
	1960	1959		
Grey ..	305.61 (22.36)	328.43 (20.14)	436.15 (26.52)	306.14 (19.15)
White ..	91.51 (7.06)	106.88 (7.42)	137.59 (9.53)	111.14 (7.79)
Coloured ..	101.25 (8.99)	113.86 (9.13)	143.92 (11.46)	126.14 (19.86)
Total ..	498.37 (38.41)	549.17 (36.69)	717.66 (47.51)	543.70 (36.80)
Apparel ..	(0.19)	(0.19)	(0.22)	(0.26)
Other textiles	(6.39)	(6.85)	(8.42)	(7.94)

Note: The table gives exports from Bombay Port only. Figures in brackets represent value in crores of rupees.

Shipments from Bombay Port

(In million yards)

Sorts of cloth	Jan.-Oct.		1959	1958
	1960	1959		
Sheetings ..	231.55	258.59	344.31	246.07
Drills	52.35	60.36	74.30	65.60
Longcloth ..	49.41	51.68	64.45	60.84
Shirting	40.17	40.56	54.05	49.11
Voiles and mulls ..	41.16	55.03	72.60	39.74
Domestics ..	58.48	55.29	69.94	53.49
Coating	9.91	12.13	15.66	13.68
Dhotis and *saris* ..	8.46	8.54	11.32	7.80
Chintz	4.78	4.80	6.90	4.30
Others	2.10	2.17	4.13	3.07
Total ..	498.37	549.15	717.66	543.70

Cotton mill sheetings constituted, as usual, the largest single item of export, accounting for nearly 47 per cent. of the total exports of all varieties. The actual shipments of this variety and other varieties from Bombay Port are given in the table at the bottom of column 2.

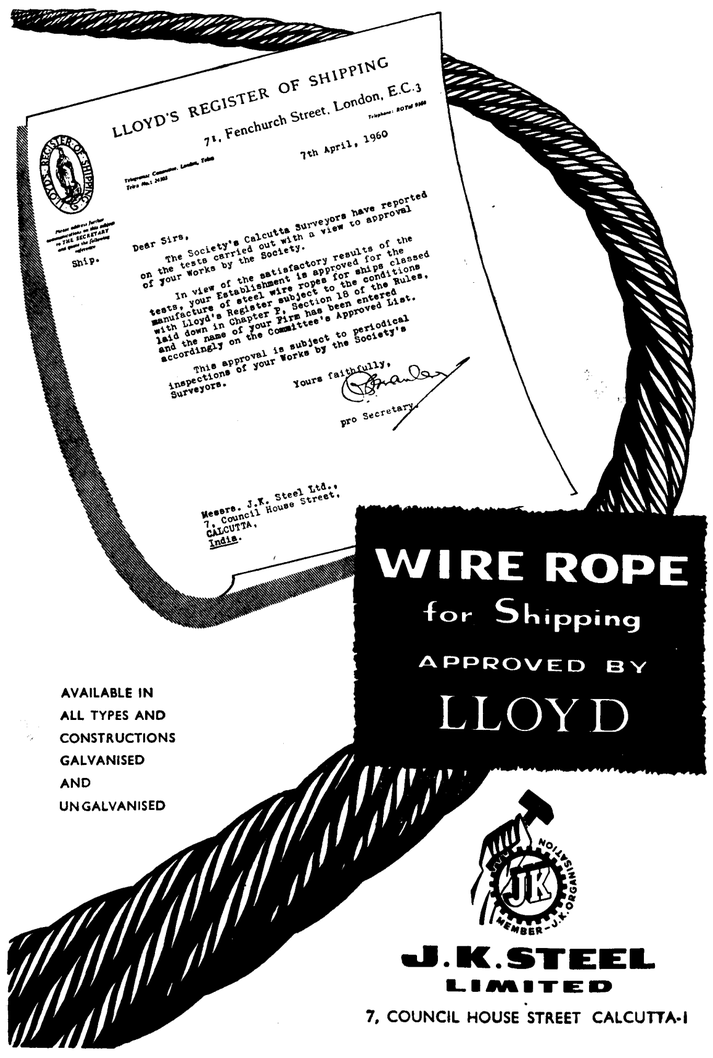
The table below shows the destination-wise exports of cotton mill piecegoods from India. It will be seen from the table that the U.K.'s offtake of cloth during 1960 was much larger than in the previous year. Similarly, the U.S., Canada, British West Africa and Afghanistan purchased more. The offtake by Sudan, Aden, Burma, Ethiopia and British East Africa was, however, lower.

The total exports of mill-made piecegoods from India during the entire calendar year 1960 may now be estimated on the basis of figures available at the time of writing. This exercise shows that some 700 million yards must have been shipped, as against nearly 815 million yards in 1959. The downward trend will continue to persist in the coming years also, unless the Government, labour and millowners tackle with determination the problem of enhancing the competitive position of Indian textiles abroad through adoption of concrete measures designed to modernise and increase the productivity of the industry. Cotton textiles account for as much as 10 to 11 per cent. of the total value of India's exports. And, naturally, the country will have to depend on textile exports, to a great extent, for financing the increasing level of imports required for economic development in the coming years.

(In million yards)

Destination	From Bombay Port only				All-India shipments			
	January-October		1959	1958	January-June		1959	1958
	1960	1959			1960	1959		
United Kingdom ..	130.60	95.71	128.31	78.37	118.62	63.76	166.54	101.62
Sudan	42.56	89.85	142.70	57.28*	21.30	8.32	149.62	54.73
British E. Africa ..	40.42	51.49	60.42	48.80	N.A.	N.A.	64.77	52.92
British W. Africa ..	19.00	14.23	18.38	46.91	N.A.	N.A.	23.26	51.85
Australia	37.70	37.77	46.55	45.81	22.99	19.14	49.06	47.17
Aden	23.13	27.00	34.75	34.52	14.87	17.17	36.14	34.67
Malaya	21.28	23.58	30.44	20.64	15.52	17.57	37.61	24.83
Burma	11.22	20.54	28.86	1.54	10.10	14.06	37.68	4.90
Ethiopia	9.16	14.06	15.28	11.34	11.74	10.99	23.47	22.98
Afghanistan	12.16	10.17	10.58	11.53	8.67	12.16	20.72	18.79
Canada	10.67	14.55	18.01	13.91	10.16	8.16	18.63	14.75
Saudi Arabia	8.65	9.83	11.24	11.45	8.42	8.55	14.90	12.42
U.S.A.	26.05	17.63	26.52	0.52	20.79	5.17	31.64	0.67
Others	99.68	122.74	145.62	161.08	87.66	114.71	140.61	144.97
Total ..	498.37	549.15	717.66	543.70	350.73	303.76	814.60	587.22

N.A.—Not available. *Inclusive of shut-outs for which separate figures are not available.



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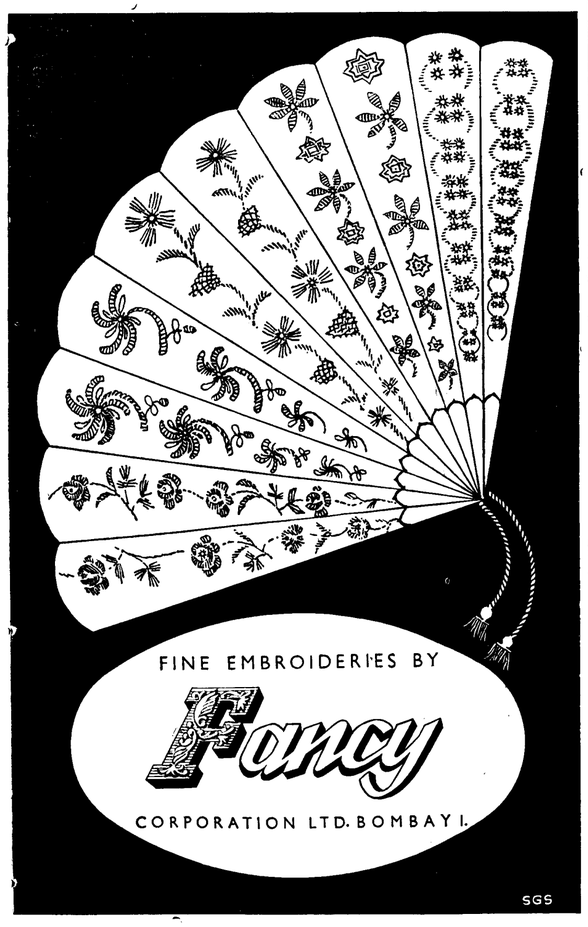
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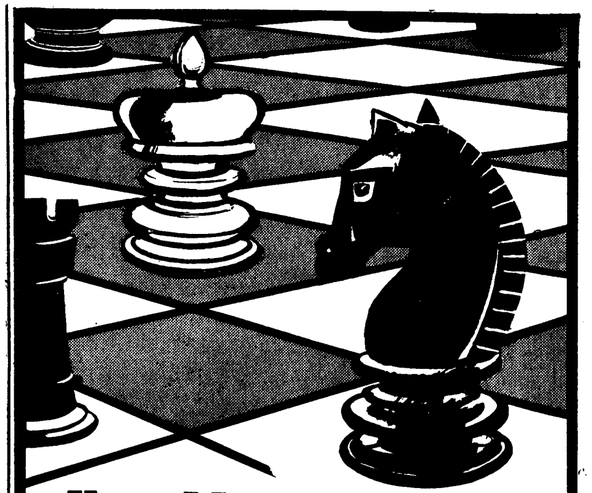
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A Year of Struggle for Jute Industry

Acute Shortage of Raw Jute—Sharp Rise in Prices Affects Foreign Offtake

THE year 1960 was a period of crisis for the jute industry. Such adverse turns in the fortunes of the industry seem to occur more often than prosperity for two reasons. First, the weather is more frequently unkind to it, thus affecting the raw jute supplies. Secondly, the industry is leaning heavily on foreign sales for its sheer survival and any sharp increase in prices of manufactured goods is immediately reflected in the decline in offtake by foreign consumers. The history of jute industry during 1960 is again the story of its struggle against these two adverse factors. After two years of determined struggle to fight the heavy odds, it was only in 1958 that the industry regained its confidence that, having seen the worst, it would be able to maintain its position as the leading dollar earner for India. This confidence was born of the large measure of success that had attended the efforts to attain near self-sufficiency in raw jute and to concentrate production of jute goods in the more efficient and economic units of the industry by closure of the uneconomic units and transfer of the looms to the other units. The industry had also made a big stride during 1958 in further strengthening its competitive position by the twin process of modernisation and rationalisation.

Turn of Fortune

It was only in 1959 that the efforts of the previous year bore fruit more fully. There was such an abundantly —and even embarrassingly—large supply of fibre in the 1958-59 season that the resultant steep decline in prices even affected the following season's (1959-60) crop. There was a sizable improvement in foreign offtake as well as in internal consumption and the mills had to unseal a part of the sealed complement of their looms, with a view to increasing production to meet the larger demand. This prosperity did not, however, last long and in the very next year, that is, in 1960, the industry was faced with a crisis, signs of which were already visible even as 1959 drew to its close.

While no force on earth can change the vagaries of the weather, timely measures by the powers-that-be can at least avert the worst. Instances of belated steps by the Government are numerous and, in spite of repeated experience, the Government machinery is still inclined to move slowly. It was known by November 1959 that the 1959-60 crop was very much smaller than that of 1958-59. Despite the large carryover from the previous year, it was believed that there would be a shortage of crop later in the season. Speculators exploited the situation and forced the prices up to unrealistic levels. Notwithstanding the special margins imposed by the East India Jute and Hessian Exchange, prices continued to soar, until, at the end of December, the Government of India made an assessment of the jute supply position and permitted imports of 200,000 bales of jute cuttings from Pakistan. While this announcement arrested the upward trend in prices, it did not succeed in bringing down prices to realistic levels for two reasons. First, the imports allowed were inadequate and, secondly, a strong speculative position had already been built up. If only the Government of India had allowed the import six weeks earlier and that too on a little more liberal scale, the speculative activity would have been nipped in the bud.

Boom in Raw Jute

After a short period of stable prices, there was again an outburst of boom in April 1960, as the new crop (1960-61) prospects had become unfavourable, owing to the unprecedented hot and dry spell that hit India's jute belt. The prospect of augmenting supplies from Pakistan was nearly as bad as that from India, in view of the soaring prices in that country. Whereas India could have purchased a million bales of Pakistan cuttings for less than Rs. 50 per bale between the months of August and November 1959, when there was a glut of cuttings—Pakistan would have been grateful to India for that timely help—and could have used that quantity as a cushion against the subsequent scarcity, the position in Pakistan changed too rapidly, thanks to the sizable expansion in sacking output in an effort to find an outlet for surplus cuttings. By April this year, prices in that country had risen by 30 per cent., at which level it was patently uneconomic for mills in India to buy Pakistan jute. The speculative activity took a violent turn in May, when prices of raw jute and gunnies touched a new high since the Korean war (1950). The upward trend was aided by the decision of the Indian Jute Mills Association to unseal one per cent. of the looms with effect from 2nd May and a further 1½ per cent. from 1st June. When it was found that the drought had considerably affected new crop sowing in both India and Pakistan and mills would have to rely on old crop for a longer period, by judicious use of the available supplies, the decision to unseal 1½ per cent. of the looms from 1st June was withdrawn. On the contrary, mills were allowed to seal, with effect from 6th June, a part of their looms on a voluntary basis according to the availability of supplies to them, on the understanding that the working looms so lost could be made up after the end of October.

Hopes of Better Crop

The outlook for raw jute supplies again changed for the better in June when the long and severe drought ended and most of the jute growing areas had rainfall. In fact, the delayed, but copious, rainfall induced hopes of bumper harvests being reaped in both India and Pakistan from this year's "late sown, better grown" crop. The Central Supervisory Board, at its meeting in July last, in fact, made a tentative first estimate of the crop for 1960-61 at 6.20 million bales, made up of 4.70 million bales of raw jute and 1.50 million bales of mesta. Although this appeared to be highly encouraging as compared with the previous season's scarcity conditions, some of the "bulls" in raw jute were reckoning on the view that total consumption of mills during the season would be of the order of 6.8 million bales, even on the basis of a working loomage of no more than 91 per cent. The majority of mills, as well as overseas buyers of jute goods, were, however, hopeful of a substantial decline in fibre and finished goods prices. They counted on mounting pressure of jute supplies from November onwards.

These hopes, however, were short-lived and the month of August saw a revival of misgivings about the crop. Arrivals of new crop into Calcutta and other assembling centres were markedly small in September, when, usually, harvesting would be nearly complete in most midland and some highland areas. Mills had long managed to get on by running down stocks and buying only spot jute when absolutely necessary. A position, however, soon developed when they had to give up the normal practice of buying for stocks and forward contracts against sale of manufactured goods. Instead, they had to confine their purchases to meet the immediate needs, irrespective of price considerations. The position would not have aggravated to such an extent but for the fact that many mills had sold goods for some months ahead. Early in September, the I.J.M.A. expressed its determination to adjust mills' production to the available supply of raw jute during the current season and indicated the possibility of having to extend the voluntary sealing scheme, introduced in June last, up to the end of November 1960. Later in the month, the I.J.M.A. reviewed the raw jute position and decided to extend, for the present, the voluntary loom sealing scheme up to 31st December 1960. The decision was prompted by the necessity to ensure adequate supply for the industry's needs with a reasonable carryover into the next season.

Drastic Steps to Curb Speculation

The uncertainty about the current season's crop continued upto the time of writing (1st week of December) and official estimates of output were not available even after five months of the season were over. Meanwhile, prices took a sharp surge forward and would have utterly destroyed the reputation of the industry but for the steps taken by the I.J.M.A. and the East India Jute and Hessian Exchange, as well as the official intervention through the Forward Markets Commission to curb speculation. The I.J.M.A. decided in October last to seal voluntarily 5 per cent. of the looms with effect from 17th October and another 5 per cent. from 24th October, bringing the total sealed complement to 19 per cent., thus revising its earlier proposal to seal the looms on a compulsory basis. The I.J.M.A. also amended its by-laws, with a view to making it obligatory on the part of mills to purchase raw jute on a quota basis, thereby replacing the mills' earlier decision to stop altogether purchase of raw jute for brief periods. This decision came into effect from 21st October.

The East India Jute and Hessian Exchange, under the directive of the Forward Markets Commission, banned all fresh transactions in hessian cloth and sacking bags contracts for November and December deliveries till 15th November and 1st December, respectively. Only offsetting business was permitted in respect of outstanding transactions. The Exchange also fixed maximum prices for hessian and sacking. The free limit concessions for exemption from payment of special margins on trade in hessian cloth and sacking bags contracts for November and December 1960 deliveries were completely withdrawn, so that the special margins became payable on all outstanding purchases as before. Finding that these measures did not have the desired effect and only resulted in a switch over of speculation to transferable specific delivery contracts (T.S.D.), the E.I.J.H., again under the directive of the F.M.C., asked all members and licensed brokers in raw jute and jute goods to submit detailed trading statements regarding outstanding positions on 15th October 1960 and weekly statements of transactions in raw jute and jute goods, with a view to enabling the Exchange to consider what appropriate action might be called for relating to trading in T.S.D. contracts. On top of these steps, the Exchange called upon all members and brokers to register all T.S.D. contracts in all varieties of raw jute and certain varieties of gunnies, passed or entered into by them on 31st October or thereafter. The Government of India, too, intervened and amended the by-laws of the Exchange, with a view to conferring on the latter more powers to curb speculation.

While all these measures had a sobering effect on speculative activity, prices did not decline very much, on account of the acute shortage of raw jute supplies. The official estimate of a crop of 5.6 million bales in Pakistan did not have any bearish effect either in that country or in India. On the contrary, there was a further spurt in prices in Pakistan, as trade circles believed that the official estimate was far too high. Prices in Pakistan were so high that it became uneconomic for Indian mills to buy at those prices. Consequently, second quota of 200,000 bales allowed by the Government of India, again in a belated fashion, was of little avail. In fact, the Pakistan Jute Mills Association, fearing an acute shortage of raw jute, asked its member-mills early in November to curtail production by restricting temporarily the working hours to 96 per week, as against 138-144 hours till then. This was expected to cut production by one-third. It was even reported that the shortage of raw jute was so acute and prices were so attractive in Pakistan that raw jute began to be smuggled into Pakistan from India, an unprecedented development.

The I.J.M.A.'s step to seal a further complement of 10 per cent. of the looms, referred to above, however, brought stiff opposition from the labour and the West Bengal Government, due to fears that the drastic curtailment of production that would result from it would lead to large-scale unemployment. The Government of India also considered that the sealing of 10 per cent. of the looms was too drastic a step. In view of the opposition, the I.J.M.A. at first offered to unseal 5 per cent. of the looms to bring the total sealed complement to 14 per cent., provided the workers agreed to reduce the working hours from 48 to 45 per week. The workers were uncompromising. After a series of meetings with the Government of India, the I.J.M.A. finally agreed to reduce the sealed complement from 19 per cent. to 12 per cent. and the working hours from 48 to 45 per week. This was equivalent to a sealing of about 17 per cent. on the basis of the 48-hour week. This arrangement was expected to minimise the effects of the restriction of output on the employment situation. As it would take some time to comply with the formalities involved in this new method of working, the mills reopened 2 per cent. of the sealed looms on 23rd November.

Production Higher

Except for the fact that the scarcity of raw jute affected production in the closing months of the year, the output of gunnies was on the whole higher, aggregating 890,500 tons in the first ten months, as compared with 869,900 tons in the corresponding period of 1959. The increase of 20,600 tons, which was in refreshing contrast to the drop of 8,400 tons wit-

(Continued on next page)

TABLE I

Production of Jute Goods

(In tons)

	Hessian	Sacking	Others	Total	Equivalent jute consumption (in bales)
1955	401,400	574,700	51,100	1,027,200	5,981,000
1956	415,200	605,500	72,100	1,092,800	6,341,000
1957	414,300	548,700	66,000	1,029,000	6,152,000
1958	407,100	582,400	72,300	1,061,800	6,145,000
1959	458,000	503,700	89,800	1,051,500	6,127,000
1960—					
January	36,700	42,900	7,100	86,700	506,000
February	36,200	41,600	8,200	86,000	512,000
March	37,000	45,000	9,100	91,100	543,000
April	37,000	44,400	9,600	91,000	538,000
May	37,700	44,500	9,500	91,700	535,000
June	37,400	42,100	9,600	89,100	508,000
July	34,300	42,400	10,100	86,800	496,000
August	35,100	48,300	10,800	94,200	548,000
September	32,500	47,900	9,000	89,400	511,000
October	33,000	45,200	9,300	84,500	503,000
Total: Jan.-Oct.,'1960 ..	356,900	444,300	89,300	890,500	5,200,000
Jan.-Oct.,'1959 ..	382,600	410,100	77,200	869,900	5,054,000

TABLE II

Despatches of Jute Goods

(In 000 tons)

	Total despatches	For export purpose				For internal consumption			
		Hessian	Sacking	Others	Total	Hessian	Sacking	Others	Total
1955	1,018.3	376.0	457.0	16.1	849.1	24.9	122.6	21.7	169.2
1956	1,054.9	397.8	430.7	33.0	861.5	21.9	148.4	23.1	193.4
1957	1,043.3	385.0	440.8	38.7	864.5	23.2	135.4	20.7	179.3
1958	1,021.3	396.1	388.2	31.5	815.8	20.8	154.8	29.9	205.5
1959	1,096.4	427.6	379.0	57.7	864.3	25.1	180.5	26.5	232.1
1960—									
January	73.1	28.4	17.5	2.9	48.8	3.1	19.4	1.8	24.3
February	84.2	33.0	20.4	4.0	57.4	3.4	21.3	2.1	26.8
March	92.0	33.1	26.2	5.7	65.0	3.2	21.5	2.3	27.0
April	85.5	32.9	22.6	6.7	62.2	2.7	18.9	1.7	23.3
May	85.5	29.8	28.5	8.2	66.5	2.4	14.9	1.7	19.0
June	89.2	34.8	25.5	10.2	70.5	2.2	14.5	2.0	18.7
July	80.3	35.0	22.8	7.9	65.7	2.6	10.1	1.9	14.6
August	98.0	33.6	38.2	8.1	79.9	2.5	13.2	2.4	18.1
September	93.7	31.4	36.5	6.5	74.4	2.2	14.8	2.3	19.3
October	83.5	29.6	27.0	4.3	60.9	2.6	18.2	1.8	22.6
Total: Jan.-Oct.,1960..	865.0	321.6	265.2	64.5	651.3	26.9	166.8	20.0	213.7
Jan.-Oct.,1959..	902.8	351.7	315.2	51.4	718.3	18.5	143.7	22.3	184.5

MONETARY THEORY AND POLICY

(*Concluded from page 176*)

aggravated on account of these programmes.

There is, however, a human problem, that those sections of the community which have no capacity to buy grains must be assisted. However, the best solution to the problem is to equip the economy with adequate stocks of grains and raw materials. During periods of near-famine or expected famine, stocks could be released on the market. (This weapon has to be used along with the monetary-*cum*-fiscal weapons.)

Similarly, this implies that the community has to invest on stocks of grain and have the necessary arrangements to store the materials. There is no harm in starting public works when materials are available. In fact, an elaborate programme of public works could be taken up during these periods when labour is plenty and wages are low. The programme of works, however, has to be intermittent in character.

Thus, price stability implies here a sharp rise in interest rates, steep taxes, low real wage rates, and, from a longer-run point of view, a programme of buffer stocks.

In the reverse case of an expected bumper harvest, the network of economic policy measures will have to be the opposite of those described above. Budgetary deficits, reduction in interest rates and easy-real wage policies. And, from a longer-run point of view, a programme of grain and material purchases will have to be undertaken.

Thus, price stability, in this connection, will also imply positive Government and Central Bank action in a number of spheres.

VII

The main burden of the above outline is to point out that fluctuations in the price level occur on account of factors other than those impinging upon money supply. Under normal conditions, when money supply is rather inelastic, fluctuations in the price level would depend upon the fluctuation in the marketable surplus. Assuming, therefore, money supply and velocity are steady, the price level tends to vary proportionately with marketed surplus. Marketable surplus, however, varies depending upon expectations regarding output changes. Other conditions being equal, if the climatic situation is adverse in the current period, it would more or less be assumed that similar conditions would be obtained in the succeeding period too. Similarly, if climatic conditions are very good in the current period, normally people would expect them to continue in the next period too. These expectations would, however, be revised depending upon weather changes. It is, therefore, the weather clerk who holds the key to the price forecasts.

Other conditions being equal, price stability would imply sharp changes in the short-term interest rates. If such action is supported by fiscal authorities in the form of changes in taxation and loan programmes, the effects would be more adequately felt. In fact, when the climatic situation is expected to be adverse, it would pay the public authorities to borrow more from the public than they would normally do. This also requires corresponding interest rate adjustments. The mechanism of short-term borrowing will, therefore, have to be adjusted to counteract the pressures that would be normally caused by the expected vagaries in weather. Similarly, repayments have to be speeded up when climatic situation is expected to be favourable. (In fact, even the timing of budgets has to be suitably altered under Indian conditions. There is no earthly reason why the budgets should be presented in February.)

The more important longer-term solution is to build buffer stocks, both in grain and industrial raw materials. The very existence of such stocks creates an atmosphere of satisfactory real-liquidity to the economy. It would discourage speculative holding of gold. If the buffer stock programme is adequately implemented, the borrowing programme would succeed and the savings of the economy would go up. In many cases, the effect of building up of stocks and stock-releases in crucial psychological moments, would exercise a powerful effect upon the entire environment.

In the above, we have visualised a more active role for monetary policy than is the normal case. The monetary authority will have to work in close collaboration with the Forward Markets Commission, the Ministry of Food and, of course, the Treasury. In essence, the operation of buffer stocks programmes should be conducted by the monetary authorities.

JUTE

(*Concluded from previous page*)

nessed in the ten months January-October 1959, was mainly accounted for by the rise of 34,200 tons in sacking and of 12,100 tons in "other manufactures." Production of hessian, however, recorded a fall of 25,700 tons, as will be seen from Table I.

Nothwithstanding an expansion in production, the trend of despatches of gunnies during the year was not encouraging, particularly on the export front, reflecting the consumer resistance from abroad to the high prices of goods. The total despatches had fallen from 902,800 tons in the first ten months of 1959 to 865,000 tons in the corresponding period of the current year, there being a decline of 67,000 tons to 651,300 tons in despatches for export purposes. Internal consumption, however, continued its upward trend with a further rise of 29,200 tons to 213,700 tons in the first ten months, as is indicated in Table II. This gives an average monthly offtake of about 21,500 tons and if this trend is maintained during the rest of the two months, the internal offtake would exceed 250,000 tons, being equivalent to about 25 per cent. of total production, as against only 12 per cent. in 1954. Such a marked rise is an encouraging sign for the Indian jute industry. This is bound to increase further as the economy of the country expands during the third Plan. It is this encouraging trend in domestic consumption that holds promise for the future of jute industry.

The long-term prospects for the industry are, therefore, promising, given adequate supplies of raw material. It is true that competition from Pakistan, with its increasing loomage, constitutes a major threat. The resort to bulk handling and use of paper bags cannot also be highly ignored. The growth of world population and trade, increase in domestic offtake, diversification of lines of production to meet the varying industrial uses of jute goods, however, indicate that gunnies will continue to hold the field as a packaging material for many years to come.



Sugar Output Scales New Peak

But No Relaxation Of Controls Still

2.42 million tons! This was the quantity of white sugar that was actually produced in India during the season 1959-60 (November 1959-October 1960). It is a peak which had never been scaled before in the history of the sugar industry and exceeds the target fixed to be achieved in the second Plan, namely, 2.25 million tons, by 170,000 tons. The previous record output was 2,026,179 tons attained in 1956-57. Sugar production during 1958-59 was only of the order of 1.92 million tons, so that the net increase registered in the season under review was 500,000 tons, representing a rise of over 25.80 per cent.

The Government of India's scheme of incentives did give a boost to sugar production, in that it provided some impetus to mills in the form of 50 per cent. rebate of excise duty on sugar produced above the average of the two previous seasons (1957-58 and 1958-59) and induced cultivators, through an upward revision in cane price (from Re. 1.44 to Re. 1.62 per maund), to deliver more cane to factories and less for producing brown sugars (*gur* and *khandsari*). It is, however, not so much the scheme of incentives as the smile of Dame Nature that was responsible for the high level of sugar output. A bumper cane crop was harvested in 1959-60—75.04 million tons, as compared with 70.46 million tons in the previous season, an improvement of 4.58 million tons. Thanks to this appreciable rise in the cane crop and to the relatively low prices commanded by the two sugar substitutes, *gur* and *khandsari*, the supplies of cane to sugar mills might have been as large as it actually was, even without the enhancement of cane price.

Capacity Expands

The high level of sugar output witnessed in the past season was also rendered possible by the notable expansion in the production capacity of the industry as a result partly of the establishment of new units and partly of the expansion of many existing ones. The total annual capacity in 1959-60 was 2,330,000 tons (on the basis of 120 working days and 10 per cent. recovery), as against 2,190,000 tons in 1958-59 and 2,026,000 tons in 1957-58. Actually, the capacity in the middle of the season, as re-assessed on the basis of average duration (actual working days) and recovery of sugar for 1957-58 and 1958-59 is estimated at 2.6 million tons.

The actual sugar output of 2.42 million tons during 1959-60 was in excess of the average production of 1,947,993 tons for the seasons 1957-58 and 1958-59 to the tune of 472,007 tons. On this basis, the total amount of excise duty rebate received by the mills works out to nearly Rs. 5.31 crores. But, as against this, the Government must have benefited to a greater extent, as a result of the marked rise in production on which excise duty is payable at the concessional rate. By way of the straight increase of 12½ per cent. in the minimum price of cane alone, the cane growers, too, were benefited to the extent of several crores of rupees. It will be of interest to note here that five per cent. of the total agricultural income is derived from sugarcane, though the area under this crop accounts for just 1.5 per cent. of the entire cultivated area.

The substantial rise of 500,000 tons in white sugar output during 1959-60 more than made good the reduction in carryover stock—from 331,000 tons at the end of October 1958 to 140,000 tons a year later—so that the total available supply during the season was markedly higher than in 1958-59, being 2.56 million tons, as against 2.25 million tons. The statistical position of white sugar in 1959-60 as compared with that in the two seasons preceding it is indicated below:

(In thousand tons)

	1959-60	1958-59	1957-58
Opening stocks	140	331	431
Production	2,420*	1,918†	1,978
Total supplies	2,560	2,249	2,409
Export (net)	Nil	19	36
Supplies available for domestic consumption	2,560	2,230	2,373
Sugar presumed to have been actually consumed	2,018	2,075	2,042
Per capita consumption (lbs.)	11.2	11.8	11.6
Closing stocks as on 31st October	542‡	140§	331

* Excluding 51,000 tons for 1960-61.
† Excluding 31,000 tons for 1959-60.
‡ Excluding 41,000 tons of stocks out of the 1960-61 season's output produced before November 1960.
§ Excluding stocks of 20,000 tons produced for 1959-60 season before November 1959.

Consumption Lower

Despite plentiful supplies of sugar thus, the quantity presumed to have been actually consumed during the 1959-60 season was lower by 57,000 tons at 2,180,000 tons. The decline in consumption is, of course, negligible, but it must be remembered that there was a further addition of five million to the country's population. The setback to consumption is to be attributed to the widespread controls over distribution and prices which made it difficult for consumers, especially in remote areas, to get regular and adequate supplies of sugar. In some places, sugar was not readily available even at a handsome premium. Generally speaking, however, the trend of sugar prices during 1959-60 was downward. The following table shows the wholesale market prices of sugar at a few important centres:

(Rs. per maund)

	Week ended 24-6-60	Three months ago (week ended 25-3-60	Beginning of the season (week ended 6-11-59)	A year ago (week ended 26-6-59)
Bombay (D-29)	42.21	42.21	42.21	43.81
Hapur (Crystal)	41.45	44.63	46.54	46.25
Calcutta (Indian medium)	41.85	41.85	44.37	42.00
Patna (D-29)	40.71	42.00	47.25	42.50
Madras (Parrys)	43.01	42.98	42.98	41.51

Owing to official controls over practically the entire quantity of sugar produced, the pace of despatches from mills was slower in 1959-60 than in 1958-59, as is shown below:

(In tons)

Month	Production		Despatches	
	1959-60*	1958-59	1959-60	1958-59
Nov.	178,945	80,700	131,012	164,763
Dec.	430,485	356,510	170,658	141,156
Jan.	498,167	444,168	169,380	189,616
Feb.	473,542	410,307	156,735	195,148
March	442,167	369,075	151,285	171,248
April	266,145	173,968	159,099	183,755
May	72,339	32,947	183,048	183,350
June	6,949	Nil	198,949	172,921
July	4,951	4,259	171,370	174,949
August	12,946	6,950	175,640	165,835
Sept.	28,364	10,313	181,862	178,849
Oct.	20,000	20,009	169,862	176,282
Total	2,435,000†	1,918,206	2,018,000	2,097,872

* Up to 7th October.
† Includes 15,000 tons for the season 1960-61.

Supplies of sugarcane to mills were quite regular and adequate during the 1959-60 season. The aggregate quantity actually crushed was 24.20 million tons (as against 19.52 million tons in 1958-59), which represents about 46 per cent of the sugar mills to net available supply of gur and output tons, after excluding 18 per being as 13.51 million tons for chewing-ragging setts. The balance of 37.33 millio is tons of cane was utilised for making brown sugars. The production of *gur* and *khandsari* in the two previous seasons were: 1958-59—3,682,000 tons and 250,000 tons; 1957-58—3,454,000 tons and 225,000 tons. In terms of value, annually, the production of white sugar amounts to Rs. 200 crores and that of *gur* and *khandsari* to Rs. 200 crores.

The rise in sugar production during 1959-60 was accounted for by all the States, with the exception of Kerala and Orissa, as will be evident in the statement below:

(In tons)

State	1959-60*	1958-59	1957-58
Bombay†	401,321	320,595	319,451
Uttar Pradesh	1,220,508	887,847	941,958
Bihar	324,950	310,647	274,550
Andhra Pradesh	137,271	120,503	132,303
Punjab	100,670	69,051	82,372
Mysore	86,170	84,647	73,182
Madras	80,684	73,921	67,961
Madhya Pradesh	28,190	21,415	33,844
Rajasthan	12,091	7,027	14,268
Kerala	9,890	11,060	8,263
West Bengal	8,843	7,185	5,575
Assam	4,233	1,780	...
Orissa	2,789	2,814	3,967
Total	2,417,608‡	1,918,192	1,977,794

* Up to 7th October 1960.
† Undivided Bombay share of Gujerat is 9,257 tons.
‡ Excludes 15,000 tons for the season 1960-61.

Export Quota

The comfortable supply position and the pressing need for earning foreign exchange prompted the Government to permit 50,000 tons of sugar to be exported to countries other than the U.S. Although the decision was announced on 17th September 1960, the quantity of sugar actually exported so far has not been much, thanks to the continued low prices in world markets. Upto 15th November, about 7,000 metric tons had been sold to Malaya and 3,000 tons to Middle East countries. The foreign exchange earned is estimated at Rs. 46 lakhs. A small parcel is believed to have been shipped to Persian Gulf at £36 (Rs. 480) per ton (c and f). So far as sugar exports to the U.S. are concerned, the matter is still under negotiation at Government level. It is reported that the Government of India wishes to deliver 500,000 tons of sugar annually to the U.S.

The trend of sugar prices, as already stated, was generaly downward during the season 1959-60, though the incidence of excise duty continued to be heavy, being Rs. 11.25 per cwt. A rebate of 50 per cent. of the duty was, of course, given on sugar produced in excess of the average of output in the two preceding seasons. The ex-factory price of D.29 grade sugar in North India was raised by Re. 1.85 per maund, that is, from Rs. 36 to Rs. 37.85 per maund in U.P. and Bihar and from Rs. 36.50 to Rs. 38.85 per maund in the Punjab, with suitable differentials for other grades. The ex-factory prices for mills in the Deccan and the South were also suitably enhanced, with the concurrence of the respective State Governments.

Tariff Commission's Report

A brief reference may be made here to the Tariff Commission's report on the cost structure of sugar and fair price payable to the sugar industry. The Commission, which was asked to conduct the examination in September 1958, submitted its report exactly a year later—that is, in September 1959—but it was not until 4th April 1960 that the Central Government released for publication the report and its decisions thereon. The salient features of the report are indicated below:

The Commission prepared four separate cost schedules applicable to four regions—(*a*) Northern region comprising U.P., Bihar and Punjab,

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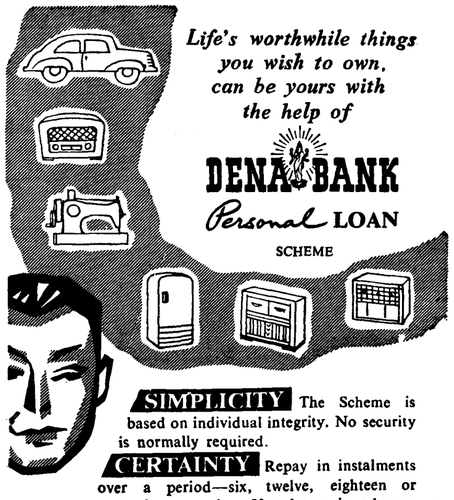
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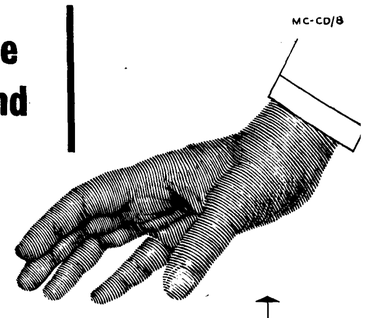
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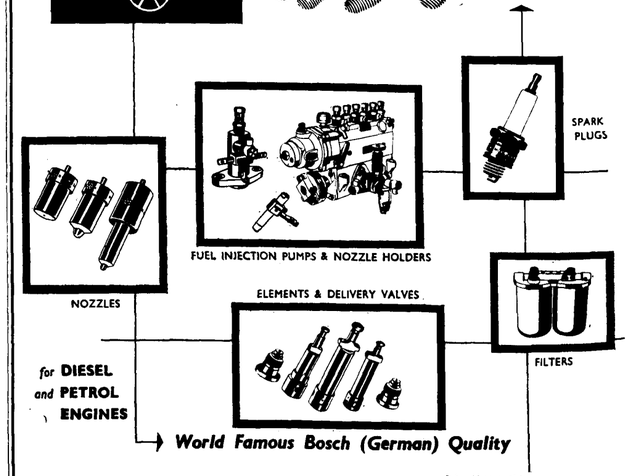
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(b) Bombay State, (c) Madhya Pradesh and Rajasthan, and (d) Southern region comprising Andhra Pradesh, Madras and Mysore. Kerala should be covered by the cost schedule for the Southern region and Orissa, West Bengal and Assam by the schedule for the Northern region. The Commission recommended that, in addition to the cost of production derived from the cost schedules with reference to duration of season and sugar recovery, 12 per cent. return on employed capital must be allowed so as to provide sufficient funds for each unit to meet its commitments under bonus and gratuity, interest on borrowed capital and debentures, dividend on preference shares, managing agents' commission and income-tax and finally leave a residue to a large majority of the units in all regions to declare reasonable dividends. The Commission did not recommend the grant of any rehabilitation allowance for fixing ex-factory price.

The Government of India accepted these recommendations and decided to make use of the cost schedules prepared by the Commission to fix the control prices of sugar where necessary. The sugar industry, however, claimed that rehabilitation allowance should be provided as in the past before the sugar price was made shareable with growers. In support of its request, the industry quoted a judgment of the Supreme Court of India given in May 1959 in the dispute between the Associated Cement Companies Ltd. and their workmen. It also contended that there should be no question of sharing the sugar price with the growers in the regions where control on ex-factory prices of sugar operated. It said: "The control prices are related to the minimum price of cane and the industry as a whole in these regions does not earn any extra price. The industry has, however, no objection to sharing with the growers any extra advantage out of special incentives given by the Government, but some simple formula for this should be evolved." On behalf of growers, it was contended that the existing formula was not only complicated but also unfavourable to the growers.

Re-examination of Cost Structure

In view of the difficulties experienced in working the formula and the representations made by the industry and cane growers, the Government of India asked the Tariff Commission, early in October 1960, to (*a*) examine the issue in all its aspects and suggest modification, with a view to improving it or recommend a revised all-India formula or regional formulæ in the light of cost schedule given by it earlier, (*b*) consider the sugar industry's claim for rehabilitation allowance in the matter of sugar price division, (*c*) indicate whether the formula should apply to regions where ex-factory prices are fixed and, in case the formula is not applied, how the advantage of special incentives given to factories in years of control should be shared between mills and growers; and (*d*) assess the effect of the price linking formula on the establishment of new sugar factories with heavy capital outlay and see whether any concession is to be allowed to them.

The Tariff Commission's recommendations and the decisions that the Government will take thereon assume special significance in the context of the ambitious programme of expansion and development during the third Five-year Plan period. The target for white sugar production, which was fixed at 3.0 million tons (1965-66) in the Draft Outline, is being stepped up to 3.5 million tons, in view of the need for exporting sugar arising from scarcity of foreign exchange. The successful fulfilment of the target will depend considerably on the margin of profit for the industry and availability of adequate supplies of quality cane at an economic price.

1960-61: Outlook Encouraging

The distinctly upward trend of sugar production noted last year is expected to gather further momentum during the current season (November 1960-October 1961). Indeed, sugar output will, according to one estimate, touch a new peak of 2.6 million tons; some even put it higher still at 2.7 million tons. The estimate would appear to be somewhat justified for the following reasons:

The Government has continued the incentive scheme for boosting white sugar production—high prices for cane and rebate of 50 per cent. excise duty on "excess" sugar output. The quantum of incentive to mills is, of course, less than that for the 1959-60 season, because, by including 1959-60 in which production had attained a peak for the purpose of calculating the average, the average level of output for the industry as a whole has gone up from 1,948,000 tons to 2,164,000 tons, so that the incentive will start operating only after this higher average level is crossed.

The continuance of the scheme of incentives, together with the hope of a substantial sale of sugar to the U.S. at subsidised rates, seems to have encouraged the sugar mills to maintain a high level of output. And in this task, they are being assisted by two other encouraging factors. One, the sugarcane crop is expected to be larger; the official first estimate of the crop for 1960-61 places the total area at 5,157,000 acres (2,087,000 hectares), as against 4,975,000 acres (2,013,000 hectares) for 1959-60. Two, there has been a notable expansion in the production capacity of the industry. The capacity is at present estimated at more than 2.6 million tons (as against 2.33 million tons a year before) which is likely to be higher still in the next few months as a result partly of the expansion of some existing units.

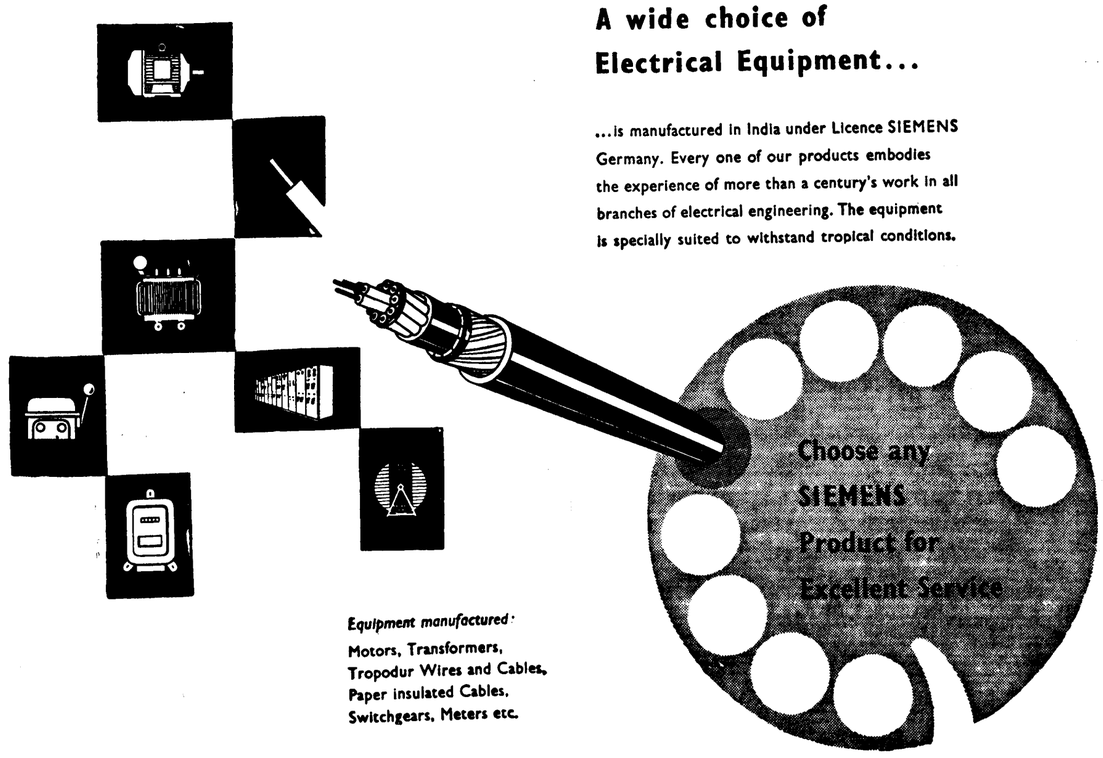
Consumer's Interest Ignored

The anticipated production of 2.6 million tons during 1960-61 and the carryover stock of 516,000 tons together give a total available supply of 3,116,000 tons. This quantity will be very much more than what is actually required to meet the domestic consumption needs and the buffer-stock requirements of 250,000 tons. Considering such highly encouraging prospects for sugar supply position, there does not seem to be any justification for the present type of controls on this commodity. Mr. S. K. Patil, Union Minister for Food and Agriculture, has himself stated on more than one occasion that "when the time comes, controls will not remain even for twenty-four hours." One would ask: Has the time not come now? Of course, it has, but the Government may want to keep down domestic consumption with a view to squeezing out a sizable quantity of sugar for export.

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Substantial Reduction in Tea Production and Exports

Problem of Coffee Marketing Not Solved Yet

ONE of the commonest causes of high fluctuation in the output of agricultural crops is the weather. In India, plantation crops, including tea, coffee and rubber, have often suffered greatly by the vagaries of the weather. This year the weather has dealt a particularly severe blow to the tea crop of North-east India, resulting in a shortfall of some 35 million lbs. During the ten months ended October 1960, the tea crop of North-east India amounted to 459.5 million lbs. only, as against 493.3 million lbs. during the same period of 1959. Every other tea-growing country of the world, with the sole exception of Pakistan, has produced more tea during 1960. South India's crop also shows a substantial increase so far of 16 million lbs. As against 123.5 million lbs. produced during the first ten months of 1959, South India has produced 139.5 million lbs. during the same period this year. Taking the figures for North and South together, the all-India tea crop in 1960 is likely to show a net reduction of 19 million lbs. from last year's figure.

The most important aspect of the tea industry is the extent to which the world crop exceeds or falls short of world consumption. Statistics of world production and consumption collected early this year showed that the 1959 production level was only slightly in excess of the consumption level. This year, Ceylon, the world's second largest tea producer, is heading towards an increase of some 17 million lbs. over last year, Africa 7 million lbs. and Indonesia 3 million lbs. The total increase, less the decrease in North-east Indian production, will be about equal to the annual rise in world consumption and it is, therefore, thought that the position at the end of 1960 cannot be much different from that of 1959.

Fall in Exports

Apart from crop, the level of export of Indian tea also has suffered a considerable diminution this year as compared with 1959. The following are comparative figures for the first nine months of 1959 and 1960:

(In million lbs.)

	Jan.-Sept. 1959	Jan.-Sept. 1960
To the U.K. ..	166.3	149.1
To other countries ..	124.7	99.8
Total ..	291.0	248.9
Difference ..	..	42.1

Taking them region-wise, the figures are:—

(In million lbs.)

	Jan.-Sept. 1959	Jan.-Sept. 1960
Exports from N.E. India.	236.1	191.9
,, from South India	54.9	57.0
Total ..	291.0	248.9

This shows that exports from North-east India have fallen side by side the diminished crop and those of South India have increased alongside the increased crop, though not quite proportionately.

Ceylon has, on the other hand, increased her export level both to the U.K. and to the other countries. Against a total export of 278.8 million lbs. during the first nine months of 1959, Ceylon exported 316.2 million lbs. during the same period of 1960. Pakistan, Kenya, and Indonesia also have made significant additions to their export levels. Taking the provisional figures for October also into consideration, it is seen that the United Kingdom imported from India 179.5 million lbs. during the first ten months of 1960, compared with 205.4 million lbs. for the same period of 1959. During the same period the United Kingdom imported 14.2 million lbs. more tea from Ceylon, than in the corresponding period of last year. The United Kingdom stock of tea at the beginning of December 1960, however, stands at 140.1 million lbs. as against 131.5 million lbs. only at the same time last year. This is an indication that further additions to stock may not be expected for some time to come.

Measures to Improve Exports

The unusually sharp fall in the level of export of Indian tea to U.K. and other markets has produced genuine anxiety to Government as well as to producers. Even allowing for the abnormal reduction in crop, there must have been some compelling reasons for this serious reduction in export level. One of the obvious reasons is the high cost of production which weakens the competitive position of Indian tea in world markets. It is true that Government has provided some assistance in the way of subsidising the price of fertilisers and transport costs in some areas, but suggestions have now been made for reducing rail freights, electricity tariffs and other elements which build up the cost. Reduction in export duty has been urged to the extent of enabling Indian tea to be placed at competitive levels with the teas of other countries. The almost complete absence of propaganda for Indian tea in foreign countries has been pointed out as one other major reason for reduced exports. It has been suggested that the proceeds of the tea cess collected from the industry should be utilised without delay in re-orienting propaganda of the right type in the United Kingdom, the U.S.A. and the Central European countries. Market surveys should be carried out and delegations sent abroad to study and report on the prospects of increased supplies to both the old and new markets. These are only some of the urgent measures necessary to arrest the fall in the export level.

The Working Group appointed by the Government of India to explore ways and means of development of the industry during the period of the third Plan has fixed a production target of 850 million lbs. to be reached by 1965. Two important considerations emerge from this estimate. Firstly, increase in production to this high level should be accompanied by the maintenance of good quality, without which there would be difficulties in the marketing of tea. Secondly, such increase in crop should also be accompanied by intensive and extensive propaganda for consumption both within and outside India. Subject to these two conditions being assured, efforts can and should be made to achieve the target above mentioned, but much cannot be achieved without the provision of adequate incentives and all available forms of assistance to the producers. Immediate increase in crop will only be possible by increasing the yield from the existing stands of tea and this again will be largely dependent on increased supply of fertilisers, the effective use of plant protection materials and the continuance of industrial peace.

In discussing propaganda, it is necessary to lay some special stress on the development of internal consumption. No doubt internal consumption is rising and is believed to have reached at least 250 million lbs. during this year. It may be claimed that this level has been reached without any propaganda or with only the minimum of propaganda. But it would be extremely complacent to assume that internal consumption will go on rising with no effort on anybody's part. Efforts to secure a high increase in production should be accompanied by similar efforts to increase local consumption, as, without it, the industry's future would be linked up completely with the uncertainties of the export trade.

In the context of the demand for increased crop, it seems idle to think of restriction schemes such as those envisaged by the International Tea Agreement. Talks of renewing the Agreement have now receded very much to the background and no one seems to be greatly concerned about a world surplus of tea and its consequent ill-effects upon the tea industry.

Steady Market

The tea market has on the whole been fairly steady throughout the year and increased prices have been obtained for quality teas. In London, the latest average price realised is 5s. 1.99d. for North Indian tea and 4s. 6.52d. for South India. The average price realisation this year has been 4s. 11.03d. for North Indian tea and 3s. 11.42d. for South India. Comparative figures for last year were 4s. 10.15d. and 3s. 8.04d., respectively. Ceylon teas sold in London have obtained better prices than Indian teas. The latest price realisation was 5s. 3.28d., as against the year's average of 4s. 11.77d. Last year's average for Ceylon tea was, however, better at 5s. 0.91d.

In pursuance of their policy to assist the tea industry in developmental work, the Government of India announced, during the year, a scheme of loan assistance for purchase of tea machinery on an instalment basis and are now stated to be considering a scheme for granting cash loans for replantation purposes. There is no doubt that replantation is necessary to obtain better yields from a considerable portion of the existing stands of tea. Normally, the growers would attend to this work by utilising their own internal resources, but this is now becoming increasingly difficult due to the erosion of profits through excessive taxation.

Bumper Coffee Crop Again

The coffee crop has continued to rise and once again an all-time record crop is in view. Receipts of coffee in the Coffee Board's Pool up to the end of October 1960 total 49,160 tons and the figure would, by now, have probably crossed the half-a-lakh mark. This crop has been achieved despite the prevalence, in many areas, of a new disease, resembling the "die-back" disease. Efforts are being made to arrest the spread of the disease and special investigators are at work.

Of the 49,160 tons brought into the Pool up to the end of October 1960, 16,194 tons have been sold through Pool sales and local sales and 12,680 tons have been sold for export. There is a balance of allotment of 7,920 tons for export sales. The balance stock in hand at the end of October was 20,286 tons. The average price realised in the last Pool sale conducted during October 1960 was Rs. 238.54 per 50 kilos for plantation A, Rs. 183.59 for arabica cherry flats and Rs. 156.98 for robusta cherry flats.

Marketing Problem

The big problem before the coffee industry this year was how to market the huge production in a satisfactory manner. India's share of the world production and export of coffee continues to be very small and, though India has the advantage of a substantial internal market, it has also to depend on foreign markets for the disposal of

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a large portion of the crop. This has to be done in the face of a continual fall in world prices and competition from major producers. It is reported that, at the end of this year, the world stocks of coffee will be equal to a whole year's production, which is an indication of the extent of competition that may be expected in foreign markets.

In fact, this year, the Coffee Board is understood to have experienced great difficulty in selling the allotment for foreign markets. Coffees which were withdrawn from sale months ago because of low offers have had to be sold at still lower prices, because of continued fall in world prices. In this connection, one also hears criticism of the system of marketing adopted by the Coffee Board. Sales are regulated by the Marketing Committee and it is stated that the system does not lend the flexibility necessary to sell the coffee for export in accordance with changing circumstances. Suggestions have even been made to the effect that the marketing organisation of the Board should be outside the control and direction of the Board and should be run on commercial lines.

A further expansion of the coffee-growing areas is being planned and there are proposals to undertake new planting in Andhra State and elsewhere. Considering the difficulties now facing the industry, it would appear to be essential that new planting should only be allowed in lands suitable for the purpose and that the plants to be used are capable of good yields and better disease-resisting than the existing ones. The rules for the licensing of coffee planted areas have not been finalised so far.

Rubber

The quantity of natural rubber produced in India this year is likely to exceed last year's figure of 23,400 tons by about 1,500 tons. The increase in consumption, of course, outstrips the increase in production, the estimate of raw rubber required for 1960 by the Indian rubber manufacturing industry being placed at 42,000 tons.

The Tariff Commission, which went into the question of the cost of production and price of rubber, submitted its report during the year and the Government of India thereupon announced that the price of raw rubber will remain the same as before, namely, Rs. 147.50 per 100 lbs. of grade I, excluding sales tax and excise duty. The Commission had arrived at a price slightly below the prevailing price, but, taking into consideration the need to develop the raw rubber industry, the Government decided that there should be no reduction. The new price includes an element of Rs. 9 towards depreciation of the rubber planted areas. This is in substitution of the "rehabilitation element" of Rs. 6.82 included in the old price. This is the first time that a provision for depreciation has been allowed for standing rubber trees and, in order that the grower shall derive the full benefit, Government has recommended to the State Governments concerned that the depreciation element should be free of agricultural income-tax. It is, however, provided that this element should be reviewed after two years, if it is found that the growers are making insufficient provision for replanting of rubber.

The Tariff Commission has calculated the amount required for replantation of rubber at Rs. 16 for 100 lbs. at current costs. Out of this, Rs. 9 has been provided in the shape of depreciation allowance as stated above, and the balance amount is to be levied as a development cess from the consumers. The proceeds of this cess will be utilised to grant subsidies to those who require them for replantation with high yielding material.

Replanting Subsidy

A scheme of subsidy for replanting has in fact already been announced by the Government. It ranges from Rs. 250 to Rs. 400 per acre as at present to Rs. 1,000 per acre. The subsidy will be given in seven instalments, beginning with the first instalment of Rs. 400 and six subsequent annual instalments of Rs 100 each. The Government has accepted the Tariff Commission's recommendation that, in future, no licence should be given for planting of rubber with ordinary seedlings and that encouragement should be given to economic holdings to undertake planting with high yielding material.

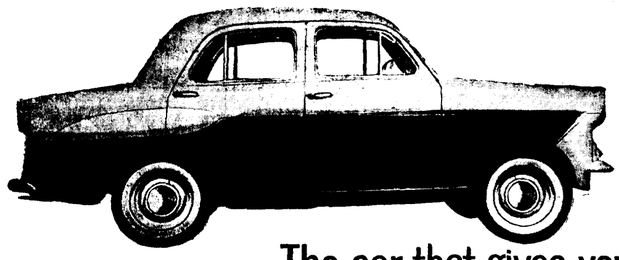
Although the new price fixed by the Government on the basis of the Tariff Commission's recommendations cannot be regarded as unreasonable, the growers are of the view that it is not a price which will provide an incentive to undertake greater production. In this connection, it is stated that the Government of Kerala has decided to allot large areas of land to the landless people and to others for new planting of rubber.

There have been complaints about thefts of rubber occurring in several parts of Kerala on a large scale and the Rubber Board has recently set up a Committee to investigate the nature of the thefts and to recommend measures for stopping them. It is stated that there should be some reduction in the present very large number of dealers and approved agents if thefts have to be prevented effectively.

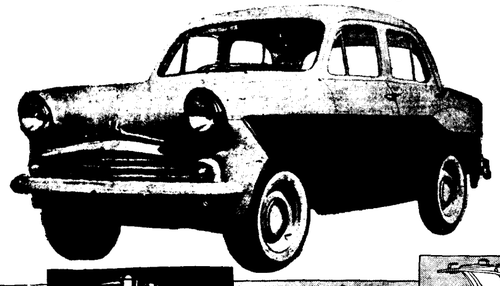
The working of the tea, coffee and rubber industries is closely associated with the respective commodity Boards, namely, the Tea Board, Coffee Board and the Rubber Board. These Boards are called Statutory Boards because they have been set up under separate statutes. The membership of the Board consists of various interests, including growers, and they are presided over by Government-appointed Chairmen. Though they are regarded as autonomous bodies, the Boards, in fact, do not enjoy complete autonomy, because the Government can step in at many points and prevent the Boards from carrying out their decisions. The Boards are also saddled with many duties and responsibilities which are clearly not their functions. In the result, the Boards are unable to carry out the tasks allotted to them freely and usefully. It is time that an investigation is made into the actual working of the three Plantation Boards, so that they may be rendered more suitable to carry out their legitimate functions more freely and effectively and they may be relieved of functions which they are not, by their very constitution, capable of discharging satisfactorily.

Labour

Labour in the plantation industry this year has on the whole been happy and there have been few complaints of disorder. The Government of India has set up a Tea Wage Board and is about to set up similar Wage Boards for coffee and rubber. The Wage Boards consist of a chairman and two independent members and representatives of employers and labour. The plantation industry has welcomed the setting up of the Wage Boards, as it gives an opportunity of a scientific investigation being made of labour costs and the industry's capacity to pay.



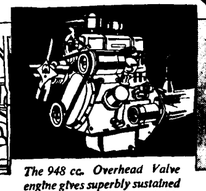
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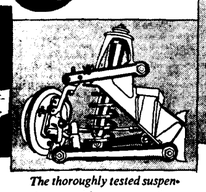
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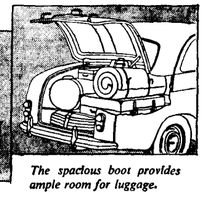
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Trend Of Agricultural Production

[A reviewer of events in agriculture in a calendar year is at a disadvantage. The production figures in this country are given in terms of the crop year made up of a part of the previous year and part of the year under review. Further, the crop year for all crops is not uniform. The result is that, by the time one does the review for a calendar year, the data pertaining to the crop year falling within the calendar year under reference are common knowledge, though unofficial reports and estimates can be had. These limitations have to be borne in mind when reading the review on this page.—Ed.]

A STRIKING feature of the trend of production in agriculture in the crop year 1959-60—the penultimate year of the second Plan—was the moderate setback it suffered in distinct contrast to the previous year's bumper harvest. This trend was also out of tune with that in world agricultural production, which continued to make headway in 1959-60, albeit at a slower pace than in the previous year. India's output of foodgrains declined from 75.5 million to 71.75 million tons or by 5 per cent., which compared unfavourably with the increase in population of about 2 per cent. The production of cash crops, including cotton and jute, was lower, sugarcane being an important exception.

Despite the decline in production, prices of foodgrains, unlike in the preous year, were brought within manageable proportionr during the year under review. Thus, the price index for food articles (1952-53=100) rose by only 2.8 per cent. in 1959-60, as against 11.2 per cent. in 1958-59. This was due mainly to flow of larger marketable surplus to terminal centres, apart from the psychological damper administered by the arrangements made to import sizable foodgra'ns from the U.S. under P.L. 480, and also from Burma and the U.A.R. In the case of industrial raw materials, however, the price situation continued to cause serious concern, with the consequent chain reaction in the prices of cotton and jute textiles. It may be noted that, during 1959-60, indices of "industrial raw materials" and all "manufactures" taken together went up by 13.5 per cent. and 7.4 per cent., respectively, as compared with only 4.4 per cent. and 0.8 per cent., respectively, in 1958-59.

Indices of Production

Table I at the bottom of this page shows the indices of agricultural production (base: 1949-50) since 1951-52, the first year of the first Plan. Indices are given here, as they are more reliable for year-to-year comparison than absolute figures, the method of estimation of which has been changed from time to time, whereas the former are "so constructed as to link up production of each year with that of 1949-50 through pairs of comparable figures for each two successive years." The general index of agricultural production fell from 132.3 in 1958-59 to 127.2, or by 3.9 per cent. This was the result of heavy rains and floods and drought spells over large parts of the country, causing considerable damage to crops during both the *khariff* and *rabi* seasons. The index for the year under review was, however, higher by 2.6 per cent. than the earlier record of 124 attained in 1956-57. The foodgrains group registered a decline of 4.5 per cent. from 130.1 in 1958-59 to 124.3 in 1959-60 and non-foodgrains group 2.6 per cent., that is from 136.7 to 133.1. Although the peak levels attained in 1959-60 were not maintained, there are indications of gradual expansion of agricultural production in the country. Thus, the index of *khariff* cereals, although it fell from 126.8 in 1958-59 to 122.1, was the second highest on record. Besides, the index of *rabi* cereals at 139.7 showed a decline of only 0.7 per cent., as compared with the peak index of 140.7 in 1958-59. The index of pulses, however, was lower by 13.3 per cent., thanks mainly to a substantial fall in the production of gram. The index of fibres, too, suffered a perceptible setback, namely, by 17 per cent. The index of cotton fell by 18 per cent., jute by 12 per cent. and mesta by 26 per cent. The general index for oilseeds was also lower by about 8 per cent. in 1959-60.

In absolute terms, the total output of foodgra'ns was lower by 3.75 million tons, as compared with 1958-59, as will be seen from Table II, giving area and production of agricultural commodities in recent years. It must, however, be noted that the output of the two major important cereals, rice and wheat, which account for about 55 per cent. of the total foodgrains production in the country, was higher than that in any other previous year, except 1958-59 which was a year of record crops. The fall in foodgrains output was rather pronounced in *jowar* and *bajra* in the cereals group and in gram in the pulses group. The sole exception to the general trend in foodgrains production was maize, which rose to a peak level during the year under review. As already said, there was a small reduction in the production of rice, India's maior foodcrop, that is, by over one million tons to 729.34 million tons, partly owing to a reduction in the area under rice cultivation and partly to unfavourable weather conditions. The decrease in the area occurred mostly in the winter crop, shared mainly by Bihar, U.P., Assam, and Jammu and Kashmir. In these areas, there was bad weather at sowing time. The decrease in area in these States was offset by an increase in area in West Bengal, the Punjab, Bombay (undivided), Rajasthan and Madhya Pradesh. U.P., Bihar, Madhya Pradesh and Bombay (undivided) mainly accounted for the decrease in production. The decline in the first two States was due to a fall in area and partly to drought conditions during the growing period of the crop. In Bombay and M.P. the crop was affected by heavy rains and floods. The States to report an increase in rice production were Madras, West Bengal, the Punjab, Kerala and Rajasthan. The output of wheat fell by just about 40,000 tons to 9.73 million tons, despite some increase in the area under cultivation in the principal producing States. Although the area under gram recorded an increase in 1959-60, the output of this commodity came down by as much as about 1.5 million tons to 5.39 million tons. This, however, was still higher by about 410,000 tons, as compared with 1957-58. *Jowar* turnover was lower by 840,000 tons at 7.87 million tons, *bajra* by 310,000 tons at 3.48 million tons, and barley by about 60,000 tons at 2.61 million tons. The other foodgrains, too, followed more or less the same pattern.

Commercial Crops

The production of commercial crops was adversely affected during the 1959-60 crop year. The decline was particularly marked in fibres, such as cotton and jute, as well as in oilseeds. Sugarcane, tobacco and plantation crops were an exception to this trend. The production of five major oilseeds declined by about 560,000 tons to 6.35 million tons. India's most important oilseed, groundnut, received a marked setback, its production having fallen by 420,000 tons to 4.39 million tons (in shell) in spite of a notable increase in the area under cultivation. The output of castorseeds, too, moved down by about 6,000 tons to 108 000 tons, sesamum by about 119,000 tons to 392,000 tons and linseed by about 22,000 tons to 425,000 tons. The performance of rape and mustard was in distinct contrast to this trend, with their production touching a new peak level in 1959-60, as a result mainly of extension of area under cultivation. Among others, fibres cut a poor figure. Cotton production (at 3.84 million bales) in particular, was the lowest in the past seven years. The decline is attributed partly to decrease in acreage and partly to untimely and incessant rains in the major producing areas of Maharashtra, Gujerat and Madhya Pradesh. The production of jute fell by as much as about one million bales to 4.6 million bales as a result of lower acreage, following a marked fall in raw jute prices during the 1958-59 season, as also unfavourable weather conditions. It is regrettable that Dame Nature continues to dictate the pace of progress of Indian agriculture, reflecting broadly the inadequate arrangements made so far to provide irrigation and to ensure effective measures for flood control.

In refreshing contrast to this trend, the production of sugarcane made, as already stated, significant headway, having gone up by over 4.5 million tons to 75 million tons (in terms of cane) in 1959-60. Tobacco also fared better, with the total output touching 280,000 tons, as against 260,000 tons in the previous year. It may be noted, in passing, that production of plantation crops also improved slightly, the index being 131.1 for 1959-60, as compared with 130 in 1958-59.

Despite the generally lower levels of production, the price situation in respect of food articles did not deteriorate to the extent witnessed in the previous year. The prices of cash crops, however, rose substantially. In fact, for the first time since 1951, the important contributory groups in the increase in the general price level (by 5.7 per cent.) were industrial raw materials and manufactures. The rise in the food articles group was relatively small, unlike in previous years, the contribution of this group being mainly under sub-groups other than cereals and pulses. Food articles group index, which had risen by 11.2 per cent in 1958-59, showed a rise of only 2.8 per cent. in 1959-60. This index (base 1952-53=100) touched 116.5 at the end of March 1960, as against 112.7 a year before, and 125.1 in the middle of October, when it touched the peak level of the year. The index for cereals rose by no more than one per cent., as compared with 7.4 per cent. in 1958-59, whereas that for pulses declined by 20 per cent. as against a rise of as much as 45 per cent. in the previous year. Although the rise in the price of food articles was small in 1959-60, it cannot be gainsaid that the bulk of the rise of about 33 per cent. in the general index during the last five years (since May 1955, when the first phase of price rise started) occurred mainly under food articles, which (with 50 per cent. of total weight in index) was higher by 42.2 per cent., while the corresponding increase made by industrial raw materials and manufactures were only 40.6 per cent. and 17.5 per cent., respectively. This shows that there is hardly any room for complacency in regard to food prices.

Price Control

One of the plausible explanations for the slow rise in prices of foodgrains is that arrivals into markets were generally larger during the year under review. In order to bring food prices under control, the Government has also been resorting to many measures, some of which are of doubtful merit. Apart from the continuance of selective credit controls, other measures taken during the year included (1) augmentation of supplies through larger imports as well as procurement; (2) extension of the machinery of controlled distribution through fair price shops; (3) continuance of (a) ban on forward trading in foodgrains, (b) restrictions on the inter-State movements of foodgrains as also the zonal arrangements, (c) the ban on open market purchases of wheat by flour mills; (4) extension, in suitable cases, of the provisions of sub-section (3A) of Section 3 of the Essential Commodities Act 1955, under which the Government can direct any person holding foodgrains in stock to sell the same at prices equivalent to the average market prices prevailing in the preceding three months and the delegation to State Governments of powers to enable them to requisition stocks from traders and millers, and (5) the extension of the licensing system to cover the entire wholesale trade in foodgrains throughout the country.

The year under review witnessed the evolution of a practical, rather than a doctrinaire, approach to the question of State trading in foodgrains, on which a highly controversial resolution was adopted by the Congress Party and the National Development Council in 1958-59. It is now officially conceded that the results of the trials so far undertaken by the Government to interfere in the distributive trade in foodgrains, were "generally not very happy," especially in deficit areas where the flow of market arrivals was adversely affected, despite higher output in 1958-59. West Bengal and Bihar gave up procurement of rice as early as in June 1959. Madras and Mysore decided not to undertake procurement operation in the 1959-60 crop. Orders fixing maximum controlled prices were also withdrawn in these States. The procurement of rice was, therefore, continued in six States only, namely, the Punjab, Madhya Pradesh, Andhra, U.P., Assam and Orissa, and that contrary to the advice from the Centre.

In respect of industrial raw materials of agricultural origin, the tight supply position did aggravate the price situation. The general index for industrial raw material rose by 13.5 per cent. mainly as a result of an increase of 23.7 per cent. in raw jute prices, and 10.8 per cent. in raw cotton. But for larger imports of these raw materials, imposition of restrictions on forward trading and controls to ensure their national utilisation by consumers, prices would have gone up further. Oilseeds price also rose by 10.2 per cent., with groundnuts alone moving up by 17 per cent.

Prospects

At the time of writing, the 1960-61 season is well under way. The crops sown in June-July 1960 are now being marketed. As usual, official forecasts about these crops will make their appearance only after several months. The consensus of trade estimates, which have invariably proved to be more correct than official data, is that agricultural production has staged a smart recovery during the current season, 1960-61. The Planning Com-

(Continued on page 231)

Table I

Index Numbers of Production

(1949—50=100)

	1951-52	1955-56	1956-57	1957-58	1958-59	1959-60
Kharif cereals	90.4	111.8	116.9	107.7	126.8	122.1
Rabi cereals	95.1	128.9	136.9	112.4	140.7	139.7
All cereals	91.2	114.9	120.5	108.5	129.3	125.3
Pulses	90.3	118.4	122.9	104.2	135.2	117.2
Foodgrains	91.1	115.3	120.8	107.9	130.1	124.3
Oilseeds	97.4	108.6	120.3	115.6	133.4	122.5
Fibres	128.3	149.7	170.7	165.5	175.0	145.2
Plantation crops	109.4	113.2	115.0	123.8	130 0	131.1
Miscellaneous crops	114.0	120.1	129.2	126.1	129.0	136.9
Non-foodgrains	110.5	119.9	130.6	128.1	136.7	133.1
All commodities	97.5	116.8	124.9	114.6	132.3	127.2

Table II

Area and Production of Crops

(For Crop Year ending June)

	Area (million acres)			Production (million tons)		
	1957-58	1958-59 (a)	1959-60 (b)	1957-58	1958-59 (a)	1959-60 (b)
Rice	79.45	81.43	81.34	24.89	30.35	29.34
Wheat	28.30	31.14	31.51	7.74	9.77	9.73
Jowar	42.20	42.58	41 60	8.25	8.71	7.87
Bajra	27.24	28.00	26 70	3.52	3.79	3 48
Barley	7.55	8.24	8 22	2 23	2.67	2 61
Maize	9.82	10 46	10.46	3 04	3.38	3.62
Ragi	5.73	6 19	6 21	1 67	1 88	1 86
Small millets	11.85	12 42	12 34	1 67	2 07	2 00
Gram	22.86	24 87	25 05	4 98	6 88	5.39
Tur	5 69	5 03	5 84	1 41	1.67	1.59
Other *khariff* pulses	15.66	15.60	16 08	1 39	1 56	1 57
Other *rabi* pulses	11.27	12.99	12 79	1 73	2.76	2.69
Total foodgrains	268.61	279.86	278 13	62 52	75.50	71.75
Groundnut	14 88	14 58	15 31	4 44	4 81	4 39
Castorseed	1 18	1 20	1 18	0 09	0 11	0 11
Sesamum	5.17	5 50	5 51	0 35	0 51	0 39
Rape and mustard	5.98	6 02	7 17	0 92	1 03	1 04
Linseed	3.13	3.07	3 92	0 25	0.45	0 42
Total oilseeds	30.34	31.26	33 08	6 05	6 91	6.35
Cotton*	20 00	19.93	19 25	4 74	4.69	3 84
Jute†	1.74	1.81	1 71	4 05	5.16	4.55
Mesta	0 76	0 83	0 71	1 29	1.49	1 10
Sannhemp	0 70	0.81	0 81	0 08	0 08	0 08
Sugarcane	5.10	4.80	5 18	68 02	70 46	75 04
Pepper (black)	0 23	0 23	0 23	0 03	0 03	0 03
Tobacco	0 90	0 90	0 93	0 24	0 26	0 28
Ginger	0 03	0 04	0 04	0 24	0 01	0 01
Chillies (dry)	1.6	1.50	1.50	0 36	0.33	0.34

(a) Partially revised estimate. (b) Final estimate.
* Production in terms of million bales of 392 lbs. each. † Production in terms of '000 bales of 400 lbs. each.

Source: Ministry of Food and Agriculture.

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SISTA'S PAL 27

Another Year Of Buoyant Industrial Production

Most Older Industries Record Big Increases

FOR the second year in succession since 1958 industrial production in India has registered a spectacular uptrend. This is broadly confirmed by the General Index of Industrial Production (Base: 1951=100), according to which the average of seasonally adjusted indices for available months upto July 1960 is 165.8 as compared to 151.9 in 1959 and 139.7 in 1958. Considering the twin fact that cotton yarn, cotton piecegoods and jute manufactures together have a 48 per cent. weightage in the General Index and that production in these three industries has virtually remained static in the two years—1959 and 1960—it would appear that there has come about a more substantial expansion of production in other established industries. A closer look at the table in this review will show how the different older manufacturing industries which had been well established even before 1951 have fared in 1960 as compared with 1959. In noting the production trends in this table the reader is advised to keep in mind that the estimates for the whole of 1960 have been worked out on the basis of monthly averages covering the first seven months of that year in some cases, the first eight months in other cases and the first nine months in a few cases.

Iron and Steel

It will be seen that some of the biggest increases have been registered by iron and steel which, together, have a weight of 5.9 in the General Index. While iron production in 1960 has increased by 27 per cent. over 1959, production of finished steel has increased by 30 per cent. and that of crude and semi-finished steel by 49 per cent. Impressive as this increase in steel production has been, it is doubtful if in the last year (April 1960-March 1961) of the second Plan, production of finished steel will have reached a level of 2.6 million tons as has been estimated in the Draft Outline of the third Plan. With an estimated production of 1.9 million tons of finished steel in the calendar year 1960, the most that can be hoped for in the Plan year 1960-61 is 2.1 million tons. That will mean a shortfall in achievement to the tune of 0.5 million tons—a shortfall caused by the shortage of good quality coking coal and other raw materials of appropriate quality. This unfavourable comparison of estimated actual production in 1960-61 with the second Plan's target of production does not, however, detract from such increase as has taken place in 1960.

Heavy Chemicals

The year under review has recorded fairly big increases in the production of heavy chemicals. Sulphuric acid, for instance, has recorded a production increase of 22 per cent. over 1959, caustic soda 39 per cent., soda ash 48 per cent., liquid chlorine 26 per cent., bleaching powder 13 per cent. and bichromates 25 per cent. These production increases appear to have been due partly to additional capacities and partly to better utilisation of capacities. The position in respect of installed capacities in 1960 as compared with 1959 is shown below:

(In metric tons)

Name of chemical industry	Monthly average of installed capacity in 1959	Installed capacity a in the latest available calendar month of 1960
Sulphuric acid ..	31,173	38,660
Caustic soda	8,245	9,932
Soda ash	9,250	18,083
Liquid chlorine ..	2,685	2,802
Bleaching powder ..	1,196	1,196
Bichromates	571	571

Although the increases in production of the three heavy chemicals—sulphuric acid, caustic soda and soda ash—are quite substantial, it is unlikely that in the Plan year 1960-61 they will have reached the production targets set for them. The monthly production trends in 1960 do not point to a possible near-achievement of the targets. Actual production figures in respect of these three industries for the calendar year 1960 are compared with the second Plan target figures for 1960-61 below:

(In metric tons)

	1960 Estimated production	1960-61 Target production
Sulphuric acid ..	358,000	406,000
Caustic soda	97,000	127,000
Soda ash	141,000	244,000

On the basis of the monthly production trends in 1960, it can be reasonably assumed that actual production in 1960-61 may not be appreciably more than the figures in the first column above. That would give a rough measure of the magnitude of likely shortfalls in achievement of the production targets concerned.

Chemical Fertilisers

It will be seen from the table that another industry which has registered a big increase in production in 1960 as compared with 1959 is phosphatic fertiliser. If production of superphosphates has increased during the year by 45 per cent. over 1959, ammonium sulphate (neutral) has registered a decline of 2 per cent. from its production in the previous year. Since the monthly average figure of installed capacity in the superphosphates industry has only slightly increased from 27,556 metric tons in 1959 to 28,639 tons in 1960, the big increase in its production in the latter year has obviously resulted from a fuller utilisation of capacity. Although the monthly average figure of installed capacity in the ammonium sulphate industry has also slightly increased from 36,000 tons in 1959 to around 37,600 tons in 1960, there has been a lesser utilisation of capacity with the result that there has been a slight decline in its production during the year under review. It may not be a valid inference to suggest, on the basis of production trends in 1960, that phosphatic fertilisers are in greater demand than nitrogenous fertilisers.

Paper Industry

In a sense the paper industry is also a basic industry. Its basic character is derived from the growing need for it in the context of the spread of literacy and educational facilities and the rising tempo of industrialisation and business activity. It will be seen from the table that the production of paper and paperboards in 1960 is estimated at 3.48 million quintals (that is, 348,000 metric tons). Since the monthly installed capacity in the latter half of 1960 has reached a level of around 33,000 tons and there is a fairly high level of utilisation of capacity in the industry at present, the probability is that the production target of 350,000 long tons set for the industry for the Plan year 1960-61 will be fully reached or even slightly exceeded. It is stated that the present margin of only about 10 per cent. by which installed capacity exceeds production is due to the factor of manufacture of coarser and thicker varieties of paper.

Cement production during the year has increased by 13 per cent. over 1959. An estimated output of 7.8 million tons in 1960, with monthly production ranging round 650,000 tons, does not point to anything more than 7.9 or 8.0 million tons in the Plan year 1960-61. That would mean that actual production in the last year of the second Plan will fall short of the target by about a million tons. This likely shortfall may be partly explained by the fact that the present annual installed capacity of the industry is only about 8.6 million tons which falls short of the second Plan's target capacity by about 1.5 million tons. It would thus appear that the expansion of the cement industry has not proceeded even according to its relatively modest targets.

Light Engineering

In the light engineering group of industries covering diesel engines, sewing machines, machine tools, automobiles and bicycles, varying rates of increase in production have been registered during the year. While diesel engines and bicycles have each recorded a modest increase of 3 per cent. as compared with 1959, production of sewing machines has increased by 16 per cent., machine tools by 21 per cent. and automobiles by 37 per cent. The steep increase in the production of automobiles in particular has been due to the fact that installed capacity in the industry has increased from a monthly figure of 4,150 units in 1959 to 4,808 in the second half of 1960. Judging from the current trend of production, it would appear that the automobile industry (with a production of about 50,000 vehicles in 1960) is in a position to attain its target of 53,500 vehicles for the end-year (1960-61) of the second Plan.

Electrical Industries

In the group of electrical industries covering dry cells, storage batteries, electric motors, power transformers, electric lamps and electric fans, production during the year has generally not been buoyant except in two lines, namely, storage batteries and electric fans. In the electric lamps industry, production has actually decreased by 21 per cent. as compared with 1959. This industry continues to have a big surplus capacity of about 1.3 million units on a monthly basis. But in the electric fans industry the steady increase in capacity from a monthly figure of 63,800 in 1959 to 72,200 in 1960 has been accompanied by a more than full utilisation of capacity, with the result that production has increased by as much as 30 per cent. during the year under review. Already this industry, with a production of about 950,000 fans in 1960, has exceeded its second Plan target of 900,000. But its target of installed capacity of 2.2 million units will not be reached before 31st March 1961 even to the extent of 50 per cent. As for the electric motors and power transformers industries, it looks as though neither of them will be able to achieve the second Plan's production targets, namely, 800.000 h.p. for the former and 1,350,000 kVA for the latter. With their 1960 production being 624,000 h.p. and 1,092,000 kVA respectively, the magnitude of shortfall in the achievement of their production targets could be easily figured out.

Other Older Industries

Mention may also be made here of some other older industries. These other industries do not include cotton textile, jute, sugar, coal and plantation industries as they are covered in separate sections in this *Annual Number*. But they include such industries as woollen textiles, soap, paints and varnishes, matches, hurricane lanterns, rectified spirit, denatured spirit, non-ferrous metals, glass, refractories, plywood, wheat flour, salt and *vanaspati*. Of these industries, woollen textiles, soap, matches and refractories have registered only modest increases of 3 to 4 per cent. in production as compared with 1959. While paints and varnishes, rectified spirit, lead, glass and wheat flour industries have declined in production by varying extents during the year, all others have registered substantial increases.

Newer Industries

In a whole range of newer industries which have come to be established since after 1951 substantial increases in production have taken place in 1960. These industries cover, among others machinery manufacturing, a wide range of chemicals, drugs, plastics etc. A look at the *Monthly Statistics of the Production of Selected Industries of India* for August 1960 shows that as many as 71 new industries now figure in the diversified industrial structure. Since these industries have been assigned no weightage in the General Index with its 1951 base, the inference is that, if their production can also be taken into account in some rough-and-ready manner, the general level of industrial production in 1960 will be found to have been higher than what is indicated by the rise of about 14 points in the index as compared with 1959. But a higher level of industrial production in 1960—virtually corresponding to the Plan year 1960-61—has still not meant even progress in the achievement of the second Plan's targets in all lines.

INDUSTRIAL PRODUCTION

Selected Older Industries which were established before 1951

Industry	Unit	1959 (whole year)	Average of available monthly figures during 1960	1960 (Estimate for whole year)*	Increase (+) or decrease (—) in 1960 as compared to 1959
Iron	'000 metric tons	3,136	331	3,972	+27
Crude and semi-finished steel ..	Do.	2,201	273	3,276	+49
Finished steel	Do.	1,471	159	1,908	+30
Cotton yarn	Mill. kilograms	781	65	780	..
Cotton piecegoods	Mill. metres	4,502	381	4,572	+ 1.6
Jute manufactures	'000 metric tons	1,068	91	1,092	+ 2.2
Woollen yarn	'000 kilograms	13,380	1,052	12,624	— 6
Woollen fabrics	'000 metres	13,284	1,140	13,680	+ 3
Sulphuric acid	'000 quintals	2,969	303	3,636	+22
Caustic soda	Metric tons	69,876	8,093	97,116	+39
Soda ash	Do.	95,316	11,728	140,736	+48
Chlorine liquid	Do.	24,780	2,606	31,272	+26
Bleaching powder	Do.	5,184	490	5,880	+13
Bichromates	Do.	4,404	459	5,508	+25
Soap	Do.	132,084	11,495	137,940	+ 4
Superphosphates	Do.	251,652	30,360	364,320	+45
Ammonium sulphate	Do.	384,576	31,453	377,436	— 2
Paints and varnishes	'000 quintals	551	39	469	—15
Matches	Mill. gross boxes	32.4	2.8	33.6	+ 4
Rectified spirit	'000 litres	36,348	2,079	35,748	— 2
Denatured spirit	Do.	21,456	2,096	25,152	+17
Paper	'000 quintals	2,422	241	2,892	+19
Paperboards	Do.	566	49	588	+ 4
Hurricane lanterns	'000 Nos.	4,560	407	4,884	+ 7
Diesel engines	Do.	30,336	3,254	39,048	+ 3
Sewing machines	Nos.	252,612	24,321	291,852	+16
Machine tools	Value Rs. '000	43,884	4,419	53,028	+21
Dry cells	Lakhs	1,873	103	1,956	+ 4
Storage batteries	'000 Nos.	443	43	516	+16
Electric motors	'000 H.P.	574	52	624	+ 9
Power transformers	'000 K.V.A.	1,061	91	1,092	+ 3
Electric lamps	'000 Nos.	34,836	2,284	27,408	—21
Electric fans	Do.	727	70	948	+30
Aluminium	Metric tons	17,532	1,554	18,648	+ 6
Copper	Do.	7,784	750	9,000	+16
Lead	Do.	3,960	300	3,600	— 9
Sheet glass	'000 sq. metres	7,488	577	6,924	— 8
Cement	'000 metric tons	6,936	652	7,824	+13
Refractories	Do	508	44	528	+ 4
Automobiles	Nos.	36,468	4,177	50,124	+37
Bicycles	'000 Nos.	991	85	1,020	+ 3
Sugar	'000 metric tons	2,117	..	2,470	+17
Wheat flour	Do.	976	73	876	—10
Salt	Do	3,178	393	4,716	+48
Vanaspati	Metric tons	321,876	29,530	354,360	+10
Plywood—commercial	'000 sq. metres	5,022	447	5,364	+ 7
Plywood—tea chests	Do.	9,168	868	10,416	+14

* Estimates for the whole of 1960 worked out on the basis of monthly averages covering the first seven months in some cases, the first eight months in some other cases and the first nine months in a few cases.
† Estimate of sugar production in 1960 is based on the actual production in the first ten months *plus* the actual production in the last two months of 1959, the assumption here being that production in November and December, 1960, will not be less than in the corresponding months of 1959.
Conversion Table :—Metric ton=2,205 lb. ; kilogram=2.205 lb. ; metre=3.28 ft. ; quintal=220.5 lb. ; litre=35.2 ozs. fld. ; sq. metre=10.76 sq. ft. ; lakh=100,000.

CAUSTIC SODA INDUSTRY

Inaugurating a two-day seminar on caustic soda industry in India at Bombay on 23rd December, Mr. Manubhai Shah, Union Minister for Industry, called upon those connected with the industry to adopt a voluntary ban on the import of complete package units from abroad. He suggested that the seminar and the Development Council should go into this question immediately to decide items to be imported and suggest steps for the indigenous fabrication of these items as early as possible. The progress of the industry as reviewed by the Minister shows that the production of caustic soda has increased ten-fold in the decade after Independence, from 5,800 tons in 1948 to 57,000 tons in 1958. During the last two years, the increase has been phenomenal and, in 1960, production is expected to touch 100,000 tons. With the expected increase in production to 300,000 tons in the third Plan period, this country, which was a net importer of this material, will become self-sufficient. Several industries such as textiles, rayon soap, hydrogenated oil, vegetable oil refining, aluminium, petroleum, dyes, insecticides, fumigants and miscellaneous chemicals have all been stimulated by the rapid progress of the caustic soda industry. There are at present 18 factories producing caustic soda and 12 more units may come into existence in the next five years. The unit size of production at present varies from two tons to 80 tons per day and will vary from five tons to 160 tons per day after five years. Emphasising that all small economic units should expand, the Minister said: "The unit size should increase at least to 30 tons per day for captive units and 100 tons per day for others."

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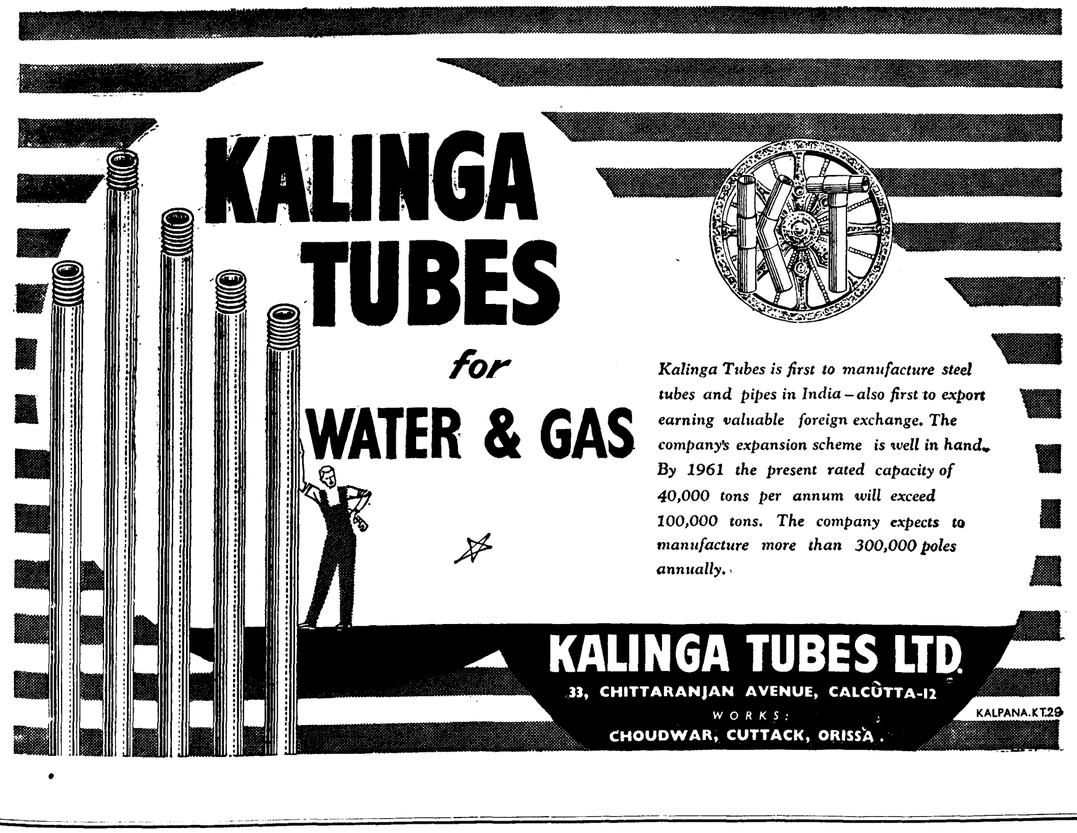
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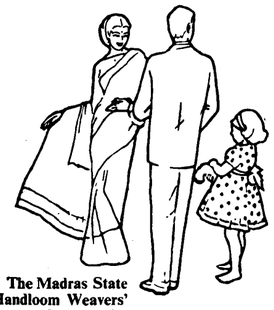
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Commodity Prices Up By Well Over Six Per Cent.

Not Much Change In Cost Of Living

THE price situation in India during 1960 continues to reflect the growing inflationary pressures within the economy. On top of the increase of eight points, which had taken place in the previous year, the index number of wholesale prices of all commodities moved further this year from 117.7 at the beginning of the year to 125.4 in the week ended 3rd December 1960, denoting a rise of 7.7 points or 6.6 per cent. This means that, generally speaking, there has been a further deterioration in the purchasing power of the rupee. Not surprisingly, therefore, the price situation has caused concern to the authorities and has agitated both the public and Parliament alike. In fact, the unrest among the Government employees, culminating in the nation-wide general strike of Central Government servants, was the direct upshot of the Government's failure to hold the inflationary forces on a leash. It is true that inflationary pressure was not of a runaway character and that the authorities were constantly trying to restrain its impact on prices but they had only limited success. The creeping inflation crept faster during the year now coming to a close than in the initial years of the second Plan.

Except in the month of March, when there was a slight fall, there has been a persistent upward movement in the prices of commodities during the year under review. The index number of wholesale prices ruled in the neighbourhood of 119 in the first quarter of the year. From April onwards the rise was almost continuous, with the index standing at 125.4 in the week ended 3rd December. In the early part of November, the index had touched a peak of 126.6.

A Notable Change

A distressing feature of the price situation in 1959 was the sharp advance in the prices of food articles, from 113 to 124. In refreshing contrast to this trend, the food index was almost steady in 1960, though a fall in it would have been very welcome. The group-wise analysis of the movement in index numbers for the current year shows that it is the rise in prices of industrial raw materials and manufactures that has made the major contribution to the overall price-rise in 1960. The index of industrial raw materials has moved up to stand at 147.7 in the week ended 3rd December 1960, from 125.4 a year ago. This shows that prices of industrial raw materials have increased in the twelve-month period by 22.3 points or by about 18 per cent. During the previous year, it may be noted, raw material prices had witnessed an increase of eight points only. The index of intermediates also has moved up during the twelve months prior to 3rd December 1960 from 117.3 to 131.9, indicating an increase of 14.6 points or about 12 per cent. In contrast, the index of finished products, too, rose by no less than 13.5 points from 111.6 to 125.1. As against these increases, the prices of food articles have exhibited a steady trend this year, showing hardly any change over the year. The index of food prices, which stood at 121.0 in the week ended 21st November 1959, actually came down to 116.6 in the last week of December 1959 and rose by only 2.4 points in the first eleven months of this year, standing at 119.0 during the week ended 3rd December 1960. A year before, it was at 119.8.

The following table shows the movement of index number of wholesale prices of the major groups, which make up the index number of all commodities, as also some of the main commodities included in each sub-group:

Index Number of Wholesale Prices
(Base: 1952-53=100)

	Week ended 3-12-60	Week ended 2-1-60	Week ended 5-12-59
Food articles	119.0	116.6	119.8
Cereals	102.6	99.3	102.9
Pulses	93.6	91.7	92.3
Edible oils	152.6	128.6	127.2
Sugar and *gur*	126.8	147.4	153.8
Liquor and tobacco	112.5	102.5	105.9
Fuel, power and lubricants	120.3	116.9	116.9
Industrial raw materials	147.7	129.4	125.4
Fibres	156.1	127.4	118.6
Oilseeds	149.5	132.5	130.4
Minerals	98.2	95.2	96.8
Others	131.5	129.6	103.6
Manufactures	126.0	114.6	112.4
Intermediate products	131.9	119.5	117.3
Finished products	125.1	113.8	111.6
Textiles	129.3	112.1	108.1
Metal products	146.8	144.6	144.7
Chemicals	104.7	106.7	106.4
Machinery and transport equipment	112.1	105.9	106.4
All commodities	125.4	117.7	118.1

Edible Oils Sharply High

It will be seen from the above table that, within the food group, the prices of cereals, and sugar and *gur* have actually fallen as compared with those prevailing a year ago, though the fall in the case of cereals is only nominal. Pulses have remained almost stationary, while the constituent which has recorded a sharp increase is the edible oils group. The late October (1960) quotation of the prices of foodgrains at Hapur showed that the prices of rice had actually fallen, while wheat had remained stationary and *jowar* and maize had recorded some increase. The *gur* and *khandsari* variety of sugar had also undergone a sharp fall in price.

The main factor responsible for only a moderate rise in foodgrain prices since December last is the comfortable supply position resulting from sizable imports of wheat and a more even distribution of available supplies through fair price shops and the continued curbs on bank advances against grains. The crop forecasts for the 1960-61 harvests were also optimistic, thereby discouraging hoarding. The total production of foodgrain in 1960-61 is expected to be of the order of 74.00 million tons as against only 71.75 million tons in the previous year. A few days ago, Mr. S. K. Patil, Union Minister for Food and Agriculture, put the production even at 75.00 million tons and Dr. Punjabrao Deshmukh, Union Minister for Agriculture, is reported to have stated that the paddy crop this year would be an all-time record. The monthly arrivals of about 300,000 to 350,000 tons of foodgrains from the U.S. have also been responsible for the subdued trend in the foodgrain markets.

Fibres

The main contributory factors to the rise in the general index of raw material prices are fibres and oilseeds; the minerals and miscellaneous category has, however, showed a declining, or only a moderately rising trend. The fibres, which include mainly raw jute and raw cotton, have recorded a sharp increase from 118.6 to 156.1 in the twelve months ended 3rd December 1960. Similarly, the oilseeds index rose from 130.4 to 149.5 during the same period. In spite of allowing large imports of cotton, the prices of raw cotton continued to rule firm. It is only in the third quarter of the year that the psychology of shortage was slowly yielding place to one of adequacy. The prices of raw jute also showed a phenomenal increase, especially in the second quarter of the year, when they went up by about 50 per cent., induced mainly by the reported failure of the jute crop. The upturn in raw jute prices, which started from the middle of July, became more pronounced during the month of September. This was due to the market apprehensions that the 1960-61 crop of jute and mesta would be much lower than the official forecast of 6.2 million bales. The efforts made to import a larger quantity of raw jute from Pakistan had no effect, as the crop in Pakistan itself was poor resulting in a marked rise in prices there also. Speculative buying by resourceful operators and holding movement among growers combined to accelerate the upward movement, defeating the measures taken to hold prices down, such as curtailment of production of jute goods and stringent penalties on speculators.

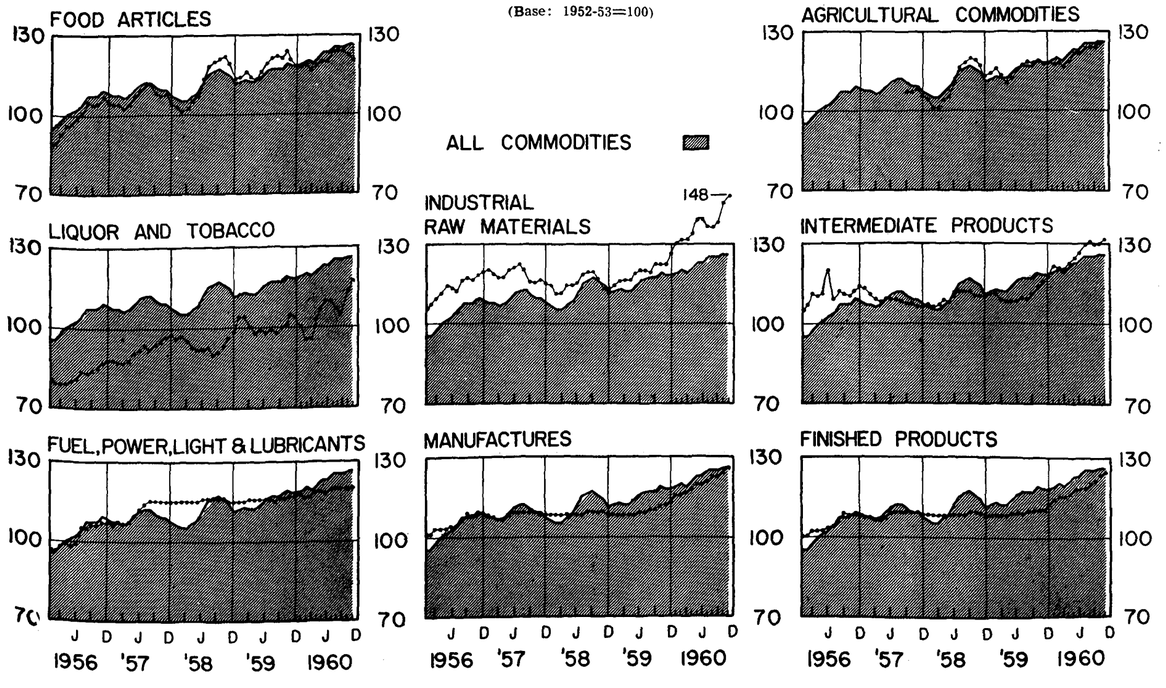
The rising trend of prices in industrial raw materials was also sustained by the movements within the oilseeds group. The groundnut prices increased by 15 per cent. in the very first quarter of the year and by another 5 per cent. in the second quarter. In the subsequent months also the groundnut prices maintained their firmness, as the supply position of groundnut was not keeping pace with the rising trend of demand. The index number of prices of groundnut oil in October (the latest available data) was 144, the highest level for 1960, as compared with 113 in December 1959.

Manufactures

The rise in the prices of manufactured goods is chiefly the consequence of the increase in the prices of raw materials. During the very first quarter of the year, for instance, the prices of manufactured articles recorded an increase of three points, in step with the rise in the prices of raw materials. High prices of raw cotton are reflected in the wholesale rates of cotton yarn and mill cloth. The wages of industrial workers also went on rising, another factor responsible for the rise in prices of manufactured goods. The recommendations of the Textile Wage Board, for instance, was a contributory factor for the increase in cloth and yarn prices. Some price increases in the manufactures groups were, however, clearly tax-induced and followed the announcement of imposition of or an increase in the existing excise duties in the 1960-61 budget of the Government of India. Motor vehicles, petroleum products, cycles, silk fabrics, tin-plate, etc., come under this category. The substantial reductions made by the petroleum companies in their selling prices were also utilised to bolster the revenues of the Government.

Apart from the aforesaid factors responsible for the rise in prices of particular commodities, the increase in commodity prices in general reflected the impact of larger demand arising from increasing population. Not the least important factor behind the upswing of commodity prices was the increase in money supply including currency in circulation and bank money, from Rs. 2,521 crores in December 1959 to Rs. 2,660 crores in October 1960.

INDEX NUMBERS OF WHOLESALE PRICES
(Base: 1952-53=100)



The Reserve Bank continued to enforce restrictive credit regulations. In addition to margin restrictions, the Reserve Bank authorities also used the power for varying the reserve ratios of banks and immobilised a part of the deposit resources of the commercial banks. This had some marginal restraining effect on price levels.

Cost of Living

Although the general level of prices rose during the year by well over six per cent., there does not appear to have been any such significant increase in cost of living. It is thus seen that the all-India consumer price index stood at 126 in September 1960, the latest month for which figures are available, as against 124 a year earlier, a rise of only two points or 1.60 per cent. This is undoubtedly a redeeming feature and the reason for this is to be found in the fact that the prices of food, which have a great effect on the cost of living index number, were well held. Barring a few centres, the cost of living indices for most of the individual centres were either steady. The table in column 2 shows the position at a glance for some of the important cities of India.

Consumer Price Index Numbers—Working Class

(Base : Year 1949=100)

	Sept. 1960	May 1960	Jan. 1960	Sept. 1959
All India ..	126	123	122	124
Bombay ..	136	137	137	137
Ahmedabad ..	122	120	123	129
Nagpur ..	133	135	135	135
Calcutta ..	117*	113	110	114
Madras ..	146	140	137	134
Bangalore ..	149*	145	144	142
Delhi ..	122	116	121	118

Note :—At the time of going to press, the figure for October is available for all-India. It is 125, as against 126 for October 1959. * August.

Position Over March 1956

As this is the final year of the second Five-year Plan, it will be instructive to note the broad trends in the general level of wholesale prices over the five-year period and study its impact on the cost of living. The following table shows the movement in the index numbers of wholesale prices from March 1956 to November 1960.

It will be noted that, until the beginning of the fifth year of the Plan, the prices of food articles, liquor and tobacco, fuel, light and lubricants as well as industrial raw materials increased to a much greater extent than the prices of manufactured goods. The principal increases in food prices occurred in 1956-57 and 1958-59. Prices of industrial raw materials fluctuated up and down during the first three years, but revealed a definitely upward pressure during the fourth year and this pressure was much aggravated in the final year of the second Plan. Prices of manufactured articles remained comparatively stable during the first three years, to be followed by a substantial increase in the fourth and fifth years of the Plan.

A comparison of the price levels as of November 1960 with that of March 1956 (beginning of the second Plan) shows that the food group has gone up by about 29 per cent., industrial raw materials by 35 per cent., fuel by 24 per cent., and manufactured goods by 21.5 per cent. The largest rise has occurred in liquor and tobacco. The index for all items is up by 28 per cent.

Reflecting the aforesaid trend, the all-India working class consumer price index has moved up from 100 to 125, the percentage of rise being 25. This gives an approximate idea of the extent to which the purchasing power of the common man's rupee has shrunk during the second Plan period.

The major task before the Government during the third Plan period would be to evolve suitable policies for holding the price levels of not only foodgrains, but also industrial raw materials and manufactured articles. The above survey of price trends in the year 1960 leaves no room for complacency in so far as the last two items are concerned. For while foodgrain prices are now exhibiting a steadying tendency and may even move down in the coming year, the position in regard to industrial raw materials and manufactured goods is not very comfortable.

Trend During the Second Plan Period

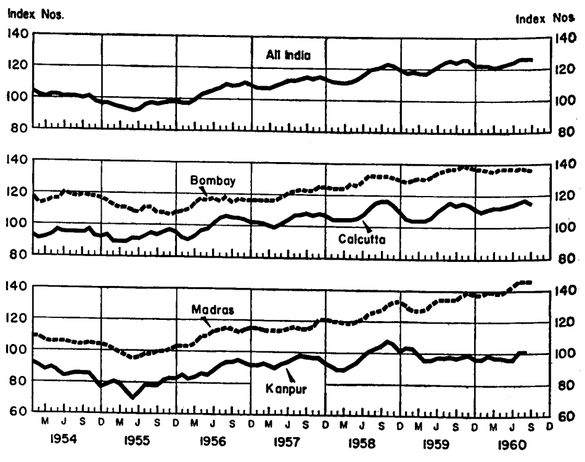
(Index Numbers Base : 1952-53=100)

Item group	March 1956	March 1957	March 1958	March 1959	November 1960	Percentage change over the five-year period
Wholesale prices of—						
Food	93	102	102	114	119.7	+28.7
Liquor and tobacco	79	87	95	100	117.2	+48.3
Fuel, light and lubricants	97	107	114	116	120.1	+23.8
Industrial raw materials	109	117	111	116	146.8	+34.8
Manufactured articles	103	100	103	108	125.2	+21.5
All items	98.1	105.6	105.4	113.3	125.5	+27.9
All-India Cost of Living Index*	100	107	110	117	125†	+25

* Base : 1940=100. † October 1960.

CONSUMER PRICE INDEX NUMBERS FOR WORKING CLASS

(Base : 1949=100)



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Record Deficit On Foreign Trade Account

Imports Expand Faster Than Exports

IN spite of the import policy being restrictive on account of foreign exchange considerations and continued measures for promotion of exports all round, the present trend of India's foreign trade indicates that the calendar year 1960 may well close with the highest level of adverse balance of trade witnessed so far with the only exception of the year 1957. At the time of writing, complete foreign trade statistics are available only for eight months, January-August 1960. Taking together the preliminary figures for September and October 1960, the total imports into India during January-October 1960 were valued at Rs. 799.63 crores, and exports including re-exports amounted to Rs. 508.27 crores, leaving a deficit of Rs. 91.36 crores. The cuts effected in imports in the last quarter of 1960 will prove effective only in the following year and may not have any salutary effect in narrowing the deficit balance in 1960. The comparative trade statistics are shown below:

(In crores of rupees)

	Imports	Exports (including re-exports)	Balance of trade
1960 Jan.-October ..	799.63	508.27	—291.36
1959 Jan.-October ..	735.24	496.00	—239.24
1958 Jan.-October ..	640.95	483.99	—156.96
1959 Jan.-December ..	895.43	625.71	—269.72
1958 Jan.-December ..	872.81	586.35	—286.46

At the current level, the total imports into India may be around Rs. 975 crores and exports Rs. 600 crores in 1960, showing an unfavourable balance of trade of Rs. 375 crores. The relatively higher imports in 1960 were due to larger arrivals of industrial raw materials, keeping in line with India's commercial policy that the rising level of industrial production should result in the pattern of trade changing to greater imports of industrial raw materials and components than those of finished goods. The exports of food, drink and tobacco group and raw materials group were maintained more or less at last year's level, whereas those of manufactured articles group showed an increase both in absolute value and in share to total exports. The shares of various groups in India's foreign trade during January-August 1960 and 1959 work out as under:

(Percentage share to total)

	Imports (Jan.-August)		Exports (Jan.-August)	
	1960	1959	1960	1959
Food, drink and tobacco ..	13.3	17.1	30.1	30.7
Raw materials and semi-manufactured articles	33.7	28.1	24.1	25.1
Manufactured articles ..	52.2	53.0	45.0	41.4
Total (including unclassified items)	100.0	100.0	100.0	100.0

The decline in the share of imports of food, drink and tobacco group was mainly accounted for by a contraction in the arrivals of wheat and dairy products, particularly milk cream evaporated, condensed or dried. The import of dairy products of which milk food for infants was an important item amounted to nearly Rs. 2.0 crores in January-August 1960 as against Rs. 5.6 crores in the corresponding period of 1959. The recent inauguration of the Rs. 31-lakh Amul baby food and cheese plant at Anand to produce 2,500 tons of baby food and one million lbs. of cheese annually should soon result in a further reduction of foreign imports of milk food for infants and cheese and help save foreign exchange to the tune of Rs. 1.5 crores annually. Arrivals of wheat and spelt were also at a low level, amounting to Rs. 54 crores in the eight months ended August 1960, as compared with Rs. 72 crores in the same period last year. Cashew nuts which are imported for processing and re-export were, however, received in larger quantities, totalling 68 000 tons valued at Rs. 5.5 crores in January-August 1960, as against 57,000 tons valued at Rs. 3.6 crores in the same period last year.

As already stated, there was a general increase in the arrivals of industrial raw materials and components. The value of principal items in January-August 1960, together with the imports during the first eight months of 1959 in brackets, is as follows: Oilseeds and kernels Rs. 7 crores (Rs. 6 crores), crude rubber Rs. 7 crores (Rs. 4 crores), pulp and waste paper Rs. 4.5 crores (Rs. 4 crores), wool and animal hair Rs. 8 crores (Rs. 7 crores), raw cotton Rs. 55 crores (Rs. 25 crores), raw jute and cuttings Rs. 5 crores (Rs. 0.8 crore), crude petroleum Rs. 16 crores (Rs. 5 crores), petroleum products Rs. 38 crores (Rs. 33 crores), chemical and chemical products Rs. 28 crores (Rs. 27 crores), dyes and colours Rs. 8 crores (Rs. 6 crores), paper and pasteboard Rs. 9 crores (Rs. 6 crores), and base metals Rs. 103 crores (Rs. 80 crores), of which iron and steel was Rs. 71 crores (Rs. 58 crores), copper Rs. 15 crores (Rs. 9 crores), aluminium Rs. 5 crores (Rs. 4 crores), zinc Rs. 6 crores (Rs. 4 crores) and tin Rs. 3 crores (Rs. 2.6 crores). Import of textile yarn and thread was, however, less at Rs. 10 crores, as against Rs. 11 crores last year.

The import of capital goods witnessed some increase. Machinery imports rose to Rs. 147 crores in January-August 1960 from Rs. 124 crores in the same months of 1959. The increase in machinery arrivals was mainly accounted for by internal combustion, diesel and semi-diesel engines, metal working machinery, excavating and conveying machinery, textile machinery and chemical manufacturing machinery and plant. The import of transport equipment, however, declined from Rs. 49 crores in the eight-month period 1959 to Rs. 40 crores in the same period of 1960. The progress being made by India in the manufacture of transport equipment has resulted in a fall in the arrivals of parts of railway rolling-stock.

Tea

Detailed figures of exports are, however, availabe for one more month, that is, for nine months of 1960. During this period of three quarters, exports of tea, which is by far the most important item in the group, "food, drink and tobacco" were on the decline. From 292 million lbs. valued at Rs. 77 crores in January-September 1959, tea shipments had decreased to 248 million lbs., valued at Rs. 69.6 crores in the first nine months of the current year. The fall is even sharper as compared with January-September 1958, when 336 million lbs., valued at Rs. 90 crores, were sent abroad. The reasons for the fall in exports have been both short-term and long-term, the former being a fall in North Indan crop in the current season. A decline in the consumption of Indian tea in the United Kingdom, the best customer for Indian tea, together with an increased offtake by it of teas produced by Ceylon and East Africa, has resulted in a setback in the exports from India. The withdrawal of India from the International Tea Expansion Board in 1952 is also attributed in some quarters to have led to a decline in Indian tea consumption in the United Kingdom, and to the increase of Ceylonese tea. The following figures of imports of tea into the United Kingdom from important sources illustrate the position:

(In million lbs.)

Source	1951	1952	1957	1958	1959	1960*
India ..	276 (59)	304 (61)	348 (59)	326 (55)	284 (55)	155 (43)
Ceylon ..	110 (24)	117 (24)	140 (24)	161 (27)	138 (27)	118 (31)
East Africa ..	17 (4)	27 (5)	50 (8)	48 (8)	44 (8)	50 (14)
Total imports (including other sources)	464	497	594	588	518	361

* January-September.

Note:—Figures in brackets are percentage shares to total imports.

In the context of falling exports to the United Kingdom, where the tea habit is yielding place to rising popularity of coffee houses, it is imperative that India should find alternative markets, besides promoting internal consumption. The report of the India Government Trade Delegation to West European countries has indicated the great scope for increasing Indian tea exports to West European houses as the advantages of its use as a safe stimulant in industrial installations are not yet widely recognised.

Owing to a rise in prices, the exports of spices went up more than twofold in value from Rs. 6 crores in the nine months ended September 1959 to Rs. 13 crores in the nine months of the current year, though the volume increased only by about 38 per cent. from 4.5 lakh cwts. to 6.2 lakh cwts. Of the spices, pepper export was most important, having increased from 1.6 lakh cwts. valued at Rs. 2 crores to 2.8 lakh cwts. valued at Rs. 8 crores during the above periods. As against 967 lakh lbs. of unmanufactured tobacco valued at Rs. 13.8 crores in January-September 1958, the exports in the corresponding months of 1959 and 1960 amounted to 713 lakh lbs. and 752 lakh lbs., valued at Rs. 12 crores and Rs. 13.6 crores, respectively. For promoting tobacco exports, the Indian Tobacco Seminar held recently in Guntur made some practical suggestions such as the handling of tobacco trade with the Communist bloc countries by the State Trading Corporation and sending educated growers to some of the advanced countries like Southern Rhodesia and the United States of America where quality tobacco is produced, with a view to enabling them to have a firsthand knowledge of improved methods of cultivation, preparation, marketing, etc. Coffee and sugar had suffered in exports, the former from 2.2 lakh cwts. valued at Rs. 5.2 crores to 2 lakh cwts. valued at Rs. 4.5 crores, and the latter from Rs. 2.3 crores to Rs. 0.7 crore during the first nine months of 1960 as compared with the same period in 1959. In the near future the U.S. may be expected to favour India with an import quota for the sale of Indian sugar as a result of the U.S.'s political differences with Cuba and the consequent cancellation of import quota for Cuban sugar. India is reported to have offered the U.S. 5 lakh tons of sugar, valued at 55 million dollars annually.

The principal raw materials traditionally exported from India are mica, lac, manganese ore, iron ore and concentrates, vegetable non-essential oils, raw cotton and raw wool. Analysing their export performance during the first nine months of the current year as compared with January-September 1959, it has been observed that, although the quantum of exports of mica had gone up from 3.5 lakh cwts. to 4.5 lakh cwts., the value declined from Rs. 7.7 crores to Rs. 7.4 crores. In other words, the unit value of mica had fallen from Rs. 220 to Rs. 163 per cwt. In fact, the Indian mica industry has been passing through a crisis due to wide price fluctuations, increasing competition in world markets as a result of larger supplies of mica from Brazil and the shipment of Indian mica on consignment basis resulting in heavy rejections and consequent loss to shippers. The U.S. is reported to be investing heavy capital for the development of Brazilian mica industry. Added to this, the European countries have been making efforts to develop synthetic mica. It is, therefore, obvious that, in the long run, Indian mica industry will face problems which may baffle solution.

Lac

Similar difficulties beset Indian lac also in the world markets. The violent price fluctuations to which shellac is subjected as a result primarily of speculative activity have resulted in the importing countries switching over to the use of innumerable synthetic resins, especially plastics. The efforts taken by the Indian Lac Exporters Association are reported to have ensured stable price level for lac. Nevertheless, exports of lac declined in volume from 4.1 lakh cwts. to 3 lakh cwts., though they increased in value from Rs. 4.5 crores to Rs. 4.7 crores.

As in mica and lac, India is facing acute competition in manganese ore also, from Brazil and the U.S.S.R. The unit value of manganese ore declined from Rs. 133 last year to Rs. 123 per ton in the current year. In January-September 1958, the unit value was higher at Rs. 169 per ton. In spite of the falling unit value, the volume of exports was kept up, having increased from 7.8 lakh tons to 8.9 lakh tons, between January-September, 1959 and 1960; due to this larger quantum of exports, the total value went up slightly from Rs. 10.2 crores to Rs. 10.9 crores. The manganese interests have been highly critical of the role played by the State Trading Corporation in the export trade of manganese ore. The Estimates Committee of Parliament in its 86th Report has stated "there is some justification in the complaints of the private sector that the S.T.C.'s entry into the manganese trade has not helped in securing any new fields of export or substantially increased its value." It is felt that, though some of the decline in manganese exports was due to recessionary trends, it must be admitted that there is no evidence of the S.T.C. having helped to promote exports in this field. The Mineral Ores Sub Committee of the Federation of Indian Chambers of Commerce and Industry suggested to the Government when they met in May 1960 to announce manganese ore export policy for at least ten years. The Government of India has recently announced its export policy in regard to manganese ore by allotting export quotas for three years, and allowed relaxations in regard to the movement quota. The trade is not, however, optimistic about the outcome as a result of the changed export policy, as the policy does not contain other measures like concession in railway freight and other imposts which would lead to an increase in the country's exports. Further, it is held that the procedural difficulties to be undergone in registration, etc., are likely to offset the benefits of other concessions recently extended.

Of the other minerals and ores, Iron ore and concentrates recorded a sizable increase from 18 lakh tons valued at Rs. 9.5 crores to 24 lakh tons valued at Rs. 12.3 crores.

Cotton, Oils and Leather

The shortage of Indian cotton last season resulted in a contraction of raw cotton exports both in volume and value. From 49,000 tons valued at Rs. 9.4 crores in January-September 1959, raw cotton exports came down by half to 23,000 tons valued at Rs. 5.5 crores in the nine months of the current year. The shortage also led to a spurt in average export prices during the above periods from Rs. 1,920 to Rs. 2,400 per ton. While some increases were recorded by groundnuts whose exports increased from 23,000 tons valued at Rs. 2 crores to 28,000 tons valued at Rs. 2.7 crores, groundnut oil exports dwindled from 3.5 lakh cwts. valued at Rs. 2.6 crores to barely 0.3 lakh cwts. valued at Rs. 25 lakhs. Likewise, linseed oil exports declined from 1.6 lakh cwts., valued at Rs. 1 crore, to 1.2 lakh cwts. valued at Rs. 80 lakhs. The overall export performance by castor oil this year has been exceptionally good. The shipment of castor oil went up twofold from 5 lakh cwts. valued at Rs. 3.5 crores to 10 lakh cwts. valued at Rs. 7.6 crores. Exports of leather and leather manufactures, including tanned hides and skins, were less by Rs. 1 crore at Rs. 19.5 crores this year (January-September), as compared with Rs. 20.5 crores during the same period last year.

During the current year, the jute industry continued to face short supplies of raw jute and was having a trying time. Doubtful expectations about the size of the crop for the whole jute season have pushed up the jute prices and this acted as a drag on exports. The effect may be seen from the fact that the quantum of exports of jute manufactures fell from 7.6 lakh tons in January-September 1959 to 6.1 lakh tons in the same period of 1960. Owing to the unit value spurting from Rs. 1,063 to Rs. 1,511 per ton, the value of shipments during the above periods rose from Rs. 81 crores to Rs. 93 crores. The increase in value was accounted for more by sacking bags than by jute fabrics. At the current prices, it is doubtful if foreign buyers will continue to evince interest in gunnies, especially if they can resort to substitutes such as bulk handling and the use of paper bags.

Cloth

Cotton piecegoods exports amounted to 539 million yards, valued at Rs. 44 crores in January-September 1960, as compared with 543 million yards, valued at Rs. 39 crores in the corresponding months of 1959. The mill-made piecegoods totalled 517 million yards worth Rs. 40 crores during the eight-month of the current year, as against 518 million yards valued at Rs. 35 crores in the same period last year. Similarly, the handloom exports which were 25 million yards valued at Rs. 4.2 crores in the above eight months of last year, declined to 22 million yards valued at Rs. 4 crores in the same period this year. The volume of piecegoods exports was slightly at a lower level than last year and, but for the high internal prices with larger margins of profit, the quantum of exports would have gone up.

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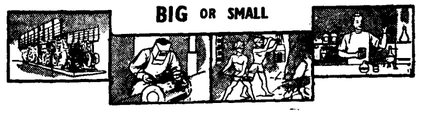
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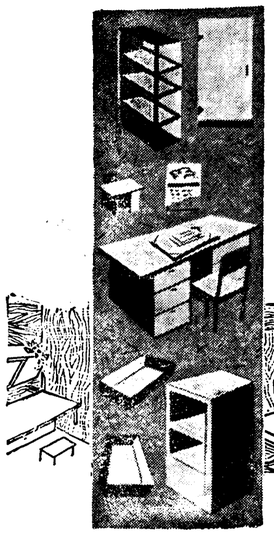
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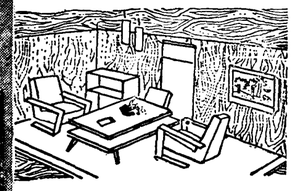
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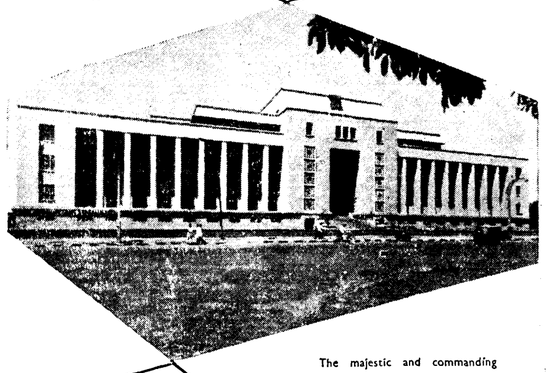
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coming years. Items of machinery exports were valued at Rs. 2.1 crores this year (January-September), as against Rs. 1.4 crores in the corresponding months of the preceding year. Electric fans, and dry batteries formed the main items of exports among electrical machinery. Sewing machines and diesel engines were other items whose exports showed an increase in the current year. Owing to high prices of steel, the principal raw material, and the low productivity of labour, the cost of producing engineering goods is rather high. The foreign missions visiting India have expressed adversely about the two factors of price and quality of Indian engineering goods. In order to fulfil the export target of Rs. 50 crores for engineering goods in the last year of the third Five-year Plan, it is highly necessary to bring down their cost of production and to improve their quality.

Analysing India's foreign trade according to currency areas, it is observed that, owing to historical associations, the share of India's trade with the sterling area countries has always been significant. Over a third of India's imports and two-fifths of exports were in the direction of sterling area in 1960 and 1959 (January-August). Next in importance is the dollar area, with which India's import and export trade constitutes more than two-fifths of its total trade. In absolute terms, while imports from the dollar area countries amounted to over Rs. 152 crores in January-August 1960, exports to them were valued at about Rs. 91 crores in the same period. While arrivals from the countries in the Organisation of the European Economic Co-operation were substantial at Rs. 141 crores, exports were valued at only Rs. 36 crores, leaving a considerable adverse balance of Rs. 105 crores. In the total trade of India, imports from the O.E.E.C. area from nearly 22 per cent. and exports to that area less than 9 per cent.

Of the O.E.E.C. countries, the six Common Market countries, namely, West Germany, the Netherlands, Belgium, Luxembourg, France and Italy supplied India in the eight months ended August 1960 goods of the value of Rs. 122 crores. They absorbed only Rs. 31 crores worth of Indian goods. The Free Trade area, comprising the United Kingdom, Sweden, Norway, Switzerland, Denmark, Austria and Portugal, supplied in the above period goods valued at Rs. 152 crores, of which the United Kingdom's share was Rs. 133 crores, and took Indian merchandise worth Rs. 107 crores, of which the United Kingdom's share was Rs. 101 crores. The table below shows the importance of various currency areas in India's foreign trade:

(Share to total)

Area	Imports (Jan.-Aug.)		Exports (Jan.-Aug.)	
	1960	1959	1960	1959
	%	%	%	%
Dollar	23.3	25.4	22.5	22.1
O.E.E.C. ..	21.7	25.4	8.9	9.5
Rupee payment ..	3.9	4.2	9.9	8.1
Sterling	37.9	33.5	45.7	46.9
Others	13.2	11.5	13.0	13.4
Total	100.0	100.0	100.0	100.0
Of which:				
Common Market ..	18.8	22.7	7.4	7.6
Free trade ..	23.3	21.8	26.4	26.8

The following fifteen countries accounted for over 80 per cent. of imports into India and 70 per cent. of exports from India during the current year:

(In crores of rupees)

	Imports (Jan.-Aug)		Exports (Jan.-Aug.)	
	1960	1959	1960	1959
U.S.A.	143	131	67	63
United Kingdom ..	133	110	98	93
West Germany ..	75	80	12	12
Japan	32	29	24	24
Iran	21	15	2	2
Saudi Arabia ..	16	10	3	3
Burma	15	7	5	6
Italy	15	19	5	4
Egypt	14	4	8	4
Australia	13	8	13	13
France	13	13	5	5
Kenya	10	10	3	3
U.S.S.R.	9	10	19	17
Canada	9	14	11	10
Switzerland	6	5	0.4	0.6

It is, perhaps, only in the case of West Germany, one of the top-ranking, industrialised and prosperous countries of the world, that India's trade, instead of expanding, had contracted. During the full year of 1959, imports from West Germany were valued at Rs. 106 crores as against Rs. 130 crores in 1957, while in the above years exports dropped from Rs. 28 crores to Rs. 20 crores. The trend of India's exports to West Germany during the nine months ended September 1960, which were Rs. 13.4 crores shows that the total exports for the year 1960 may not exceed Rs. 18 crores. Addressing the annual general meeting of the Indo-German Chamber of Commerce in early November last, the Union Minister for Commerce and Industry expressed concern over the declining trend in India's trade with West Germany and said that exports from India to that country had not picked up. The real and the most difficult problem that India has been facing with West Germany is the huge adverse balance of trade and, if this rate of trade deficit continued, India's adverse balance with West Germany would, according to the Commerce and Industry Minister, be in the region of Rs. 500 crores to Rs. 600 crores during the third Plan period.

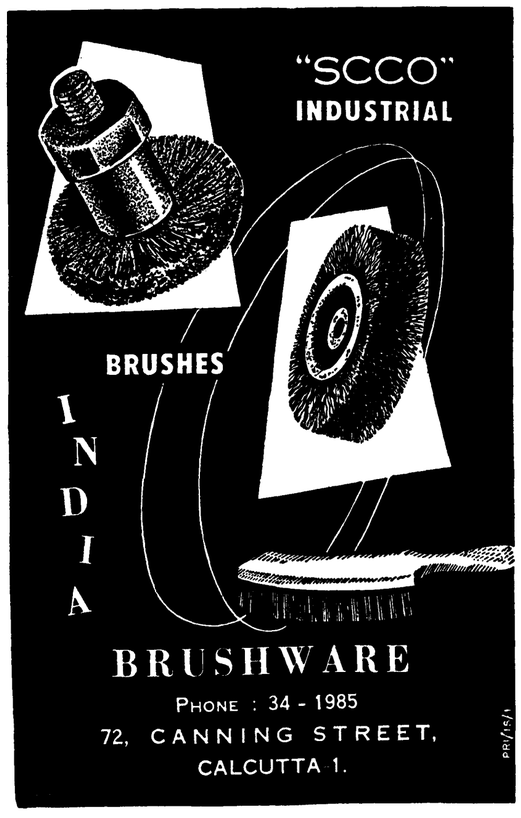
In its anxiety to narrow down the deficit balance in India's foreign trade and to promote exports by paying special attention to individual commodities and individual countries, the Government of India has been constantly improvising many devices. Export control has been either liberalised or withdrawn in a wide range of commodities. Many organisational and institutional reforms have been effected. There was a proposal, some time ago, to introduce a system of compulsory exports, but it was given up owing presumably to its impracticability. Recent innovations in this direction comprise linking of import with export items and introducing a scheme of recognising a limited number of private trading concerns as export houses provided they subscribe to certain stipulated conditions, one of which is the setting up of high standards in the performance of contracts for export. A committee has recently been set up to examine the question of quality control on goods exported from India and to recommend measures for ensuring good quality of exports and thus build up enduring trade relations with overseas buyers. In spite of the various measures taken in the past so far, albeit in a piecemeal fashion. India's exports have not expanded *pari passu* with imports. The need of the hour is, perhaps, the institution of an exhaustive but quick enquiry into India's export trade and its various problems in all their aspects and to find out ways and means of developing and expanding exports both in volume and value. The last enquiry by the Export Promotion Committee was undertaken in 1957 and one may even venture to suggest that a high-powered Foreign Trade Commission is set up once in five years, as in the case of the Finance Commission, on the eve of every Five-year Plan, so that its study and findings may be made available when the Plan schemes are finalised. In the nation's struggle to keep up and expand exports, it does not strike us as "unmoral" if the Machiavellian dictum of end justifying the means is kept in the forefront by the policy-makers of India's foreign trade.

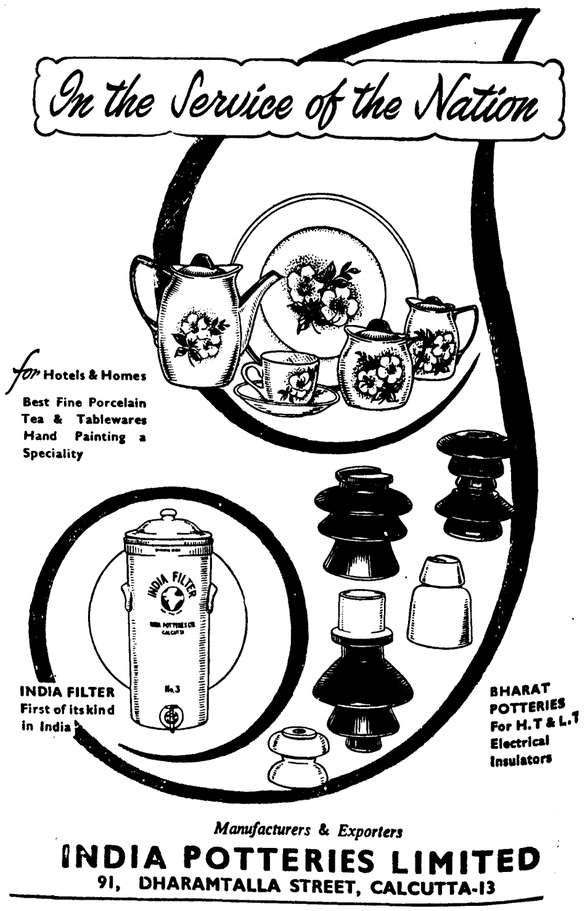
O.E.C.D.

Twenty nations, including the United States, comprise the new Organisation for Economic Co-operation and Development (O.E.C.D.) pledged "by consultation and co-operation" to expand world trade and economic co-operation and to pool resources for aiding newly-developing countries. The O.E.C.D. came into being on 14th December 1960 when the 20 nations signed the convention which sets forth its aims and objectives. The O.E.C.D. includes the U.S., Canada and all the 18 members of the old Organisation for European Economic Co-operation (O.E.E.C.), Austria, Belgium, Denmark, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the United Kingdom. The organisation's headquarters will be in Paris. The O.E.C.D. will come legally into existence any time after next 30th September 1961 after its ratification by 15 member nations.

The new body is the result of American initiative. It was first broached by the U.S. in December 1959 when President Eisenhower met at Paris the three other allied heads of Government and it was in accordance with their decision that a Ministerial Meeting in Paris in January set the wheels rolling for the O.E.C.D.'s formation. Through its trade committee, the new body will provide a framework in which Europe's two rival trade groups—the Common Market and the European Free Trade Association (E.F.T.A.)—can talk together, if their split has not been healed by the time O.E.C.D. begins functioning. The O.E.C.D. will have no immediate usefulness in solving the current balance of payments among nations, but observers point out that, if it had been in effect over the past three or four years, the nations concerned would not have had such divergent economic policies and the balance of payments problems would thus have been kept within proper bounds.

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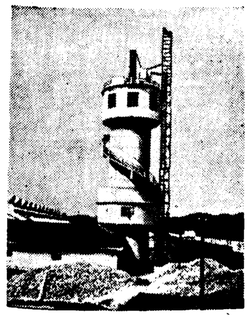
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CRITICAL PERIOD FOR GENERAL INSURANCE

Rapid Strides in Life Business

HOWEVER much one may try, a review of the trend of general insurance in this country cannot but be a little behind time. The latest issue of the *Indian Insurance Year Book* (1959 issue), the one and only document containing the statistical data on general insurance in the country, relates to a period which is two years behind the year now drawing to a close. Associations of insurance companies, of which there are more than one in this country, do not publish, as far as we know, a consolidated account of the experience of their member-companies every year. Those who attempt to analyse the progress of general insurance in the country have, therefore, only one alternative left—to scan the published statement of accounts of each and every company and collect, collate and interpret them to get a rough picture. Even this compilation will throw light only on the past year. Nevertheless, that will be something better than nothing. This is a task which could, and indeed must, be done, as in other countries, by the association of insurers. For instance, in the U.K., the British Insurance Association publishes, not long after the expiry of the previous accounting year, consolidated statistics of the business of the member-companies which, between themselves, transact 80 per cent. of the home and overseas business of the British insurance market. This forms part of the service which the Association renders to its members as well as to the Press and the public. It should not be difficult for the associations of insurance companies in India to follow this good example and even go a step further. It can, for instance, collect monthly data from its member-companies and release the consolidated data to the Press, so that one can get a broad idea of the trend of progress of general insurance every year even before its close. If banks can report their progress once a week, it is not too much to ask the general insurers to provide data of their progress once a month.

Index of Growth

Judging from the data contained in the latest *Insurance Year Book* it looks as though general insurance which, since 1955, a peak year, was lagging behind industrial production, caught up with it in 1958. Thus, while the index number of industrial production (general) rose by 2.4 points, from 137.3 in 1957 to 139.7 in 1958, as compared with an increase of 4.7 during 1957, the index number of general insurance business rose by 5.1 points from 140.4 to 146.5. In terms of actual business done, gross premium written direct in India in 1958, by both Indian and non-Indian insurers, aggregated Rs. 29.66 crores, of which Indian insurers accounted for Rs. 20.03 crores or 67.5 per cent. made up of Rs. 7.94 crores from fire business, Rs. 4.37 crores from marine business and Rs. 7.72 crores from miscellaneous business and non-Indian insurers for Rs. 9.63 crores, or 32.5 per cent., comprising Rs. 4.68 crores, Rs. 2.32 crores and Rs. 2.63 crores from fire, marine and miscellaneous business, respectively. Gross premium written direct outside by Indian insurers aggregated Rs. 6.60 crores, of which Rs. 2.15 crores were from fire business, Rs. 1.70 crores from marine business and Rs. 2.74 crores from miscellaneous business.

Net premium income from business direct in India aggregated Rs. 20.15 crores, of which Indian insurers accounted for Rs. 12.96 crores or 64.30 per cent., comprising Rs. 4.36 crores from fire business, Rs. 2.59 crores from marine and Rs. 6.01 crores from miscellaneous insurance. The share of non-Indian insurers was Rs. 7.18 crores, made up of Rs. 3.22 crores from fire business, Rs. 1.71 crores from marine business and Rs. 2.25 crores from miscellaneous business.

Of the total gross premium written direct in India by Indian insurers during 1958, fire insurance business accounted for 40 per cent., marine for 22 per cent., and miscellaneous for 38 per cent. So far as non-Indian insurers were concerned, the composition was fire 49 per cent., marine 24 per cent., and miscellaneous 27 per cent. Of the total gross premium written direct outside India by Indian insurers, 33 per cent. was in the fire section, 26 in marine and 41 per cent. in the miscellaneous section.

The following table gives the portfolio-wise breakdown of general insurance business in India during the five years, 1954-58:

(In crores of rupees)

	Fire	Marine	Miscellaneous	Total
Gross premium				
1954 ..	10.07	5.21	6.08	21.35
1955 ..	10.44	5.99	6.67	23.10
1956 ..	12.06	6.60	7.40	26.07
1957 ..	11.88	7.03	8.90	27.83
1958 ..	12.62	6.61	10.34	29.66
1959 ..	..	..	..	..
Net premium				
1954 ..	5.54	3.08	5.08	13.60
1955 ..	5.62	3.40	5.38	14.41
1956 ..	6.37	3.65	6.01	16.04
1957 ..	6.91	4.00	7.23	18.15
1958 ..	7.59	4.30	8.26	20.15
1959 ..	..	..	..	..

No major variations took place in these proportions over the period 1953-58, except that, in respect of the business of Indian insurers outside India, the proportion of fire insurance business declined from 44 per cent. to 33 per cent., while that of miscellaneous business rose from 29 per cent. to 41 per cent.

From the preliminary data available at the time of writing (27th November 1960), 1959 appears to have been, on the whole, a better year for general insurance business in India than the previous one. The results were fairly good in the fire portfolio. The claims experience compared favourably with the excellent record of 1957. Marine business, too, had some encouraging features such as the absence of heavy loss as in 1958. Though the cargo business was unprofitable, hull business continued to offer good returns. Miscellaneous business showed no material change from the previous year. The motor section, which contributes the largest share of miscellaneous premium, showed little improvement. Other classes of insurance, moreover, showed satisfactory results.

The favourable experience of 1959 is not expected to be repeated in 1960, at least so far as fire insurance is concerned. The reduction in fire premium rates, with effect from 1st January 1960, is bound to be reflected in the premium income from that source and, even if claims experience were good, the profit margin of the fire portfolio might shrink appreciably. Since fire insurance accounts for 40 per cent. of the premium income and is subsidising other unremunerative portfolios, it is felt that the cut in fire premium will adversely affect the general trend of profits of companies. It is, however, possible that the more enterprising bigger units will show improved results, albeit at the expense of smaller units, which are, in any case, shrinking in number.

There has been further evidence of the malady from which general insurance in the country has been suffering for some years now. The closure (in 1960) of a few large units of long standing not only indicated the state of the Indian market but also underlined the need for consolidation and integration of the existing units by amalgamation or group working. In view of the persistence of unhealthy competition and unfair practices in the trade, the Executive Committee of the General Insurance Council appointed a sub-committee "to take stock of the present position in the general insurance industry and recommend the future course."

The formula for limiting expenses of management under Section 40(c) of the Insurance Act and Rule 17-E continued to cause hardships to insurers. Although there is no unanimity of views as to whether the ceiling on expenses should be fixed on the basis of gross premium or net premium or actual expenses incurred or some other factor, the feeling is almost universal that the existing formula, basing the limits of expenses on gross direct premium, has ceased to be realistic and, therefore, stands in need of revision. The fact that quite a few companies, which contravened Section 40(c) and which were administered warning by the Controller of Insurance, were well within the solvency margin and had sizable free reserves, is cited as evidence of the arbitrary and unrealistic nature of the present formula. The Sub-Committee appointed by the Executive Committee of the General Insurance Council is expected to evolve a realistic formula acceptable to the Controller of Insurance as well as the controlled. It is to be hoped that the solution recommended by the Committee will not seek to perpetuate inefficient and uneconomic units at the expense of efficient, enterprising and viable units. There is a limit upto which small enterprises can be given protection in order to prevent domination by giants. The question that has to be seriously considered is whether it is necessary to ensure the existence of small insurers and if so to what extent. There must undoubtedly be healthy competition in order to ensure efficient service at a reasonable cost to those who need insurance to protect their profession and property but such competition, if it is to serve the purpose, must be between viable units.

Code of Conduct

The impression that the Code of Conduct for general insurers, which, in its revised form, came into force in 1957, has failed to achieve any of its major objectives, barring, of course, pre-payment of premium, has been gradually growing. It is felt that the administrative machinery for implementing the Code requires to be strengthened by enlisting the services of experienced personnel and ensuring closer association of the trade with its implementation. A section of the trade also feels that there is need for more sanctions to back the Code.

The demand for nationalisation of general insurance voiced by a section of employees and some politicians has been firmly turned down, again, by the Government. But the public sector's share in this field has been sedulously fostered. The

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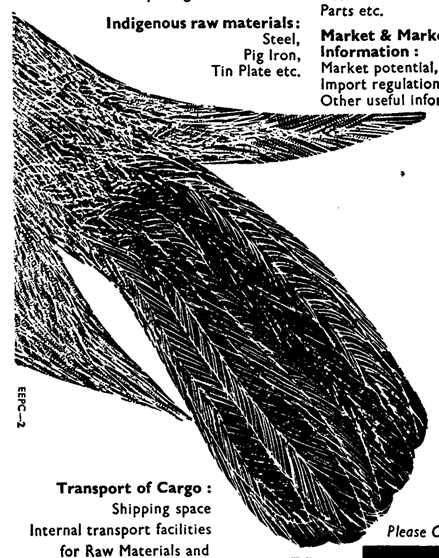
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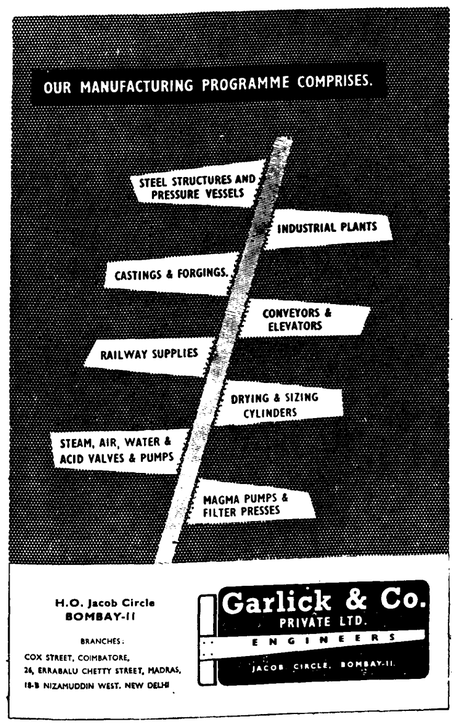
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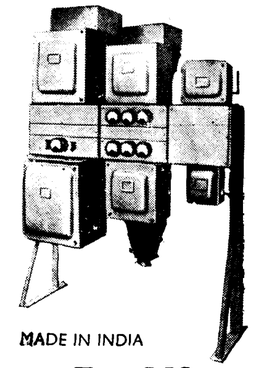
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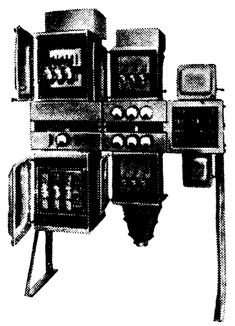


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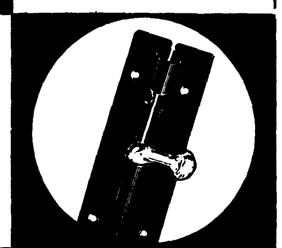
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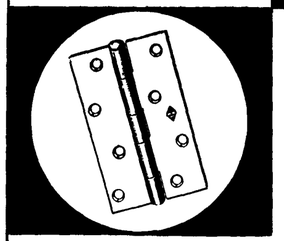
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gradual swallowing up of the business of the Indian Insurance Companies' Association Pool by Government-controlled companies has been a matter of concern to insurers in the private sector. The share of Government-controlled companies in the business of the Pool has been stepped up from 50 to 75 per cent. Their share in the Aviation Pool has also been increased to 75 per cent. Thus, the private sector, which had built up the Pool and shared the business exclusively, has been reduced to the position of a minor partner having a mere 25 per cent. of the business.

A notable development in the field of insurance has been the conversion of the "Indian Guarantee," a subsidiary of the Life Insurance Corporation of India, into a purely reinsurance company which started doing reinsurance business with effect from 1st January 1960. The move had a mixed reception from the trade. While one section welcomed it on the ground that it would, along with the India Reinsurance Corporation, be able to provide larger reinsurance facilities than has been available hitherto, another looked upon it as unnecessary and unwarranted competition from the public sector.

Life Insurance

Unlike general insurance, life insurance continues to show many encouraging features. New business in 1959, the full year for which figures are available, reached a peak of Rs. 429.17 crores, as compared with Rs. 345.68 crores in the previous year, representing an increase of 25 per cent. Of this, business of the order of Rs. 419.70 crores was from India and Rs. 9.47 crores from foreign countries, as compared with Rs. 339.06 crores and Rs. 5.62 crores, respectively in the previous year. The total business in force, which aggregated Rs. 1,682 crores under 6.03 million policies in 1958, increased to Rs. 1,964 crores under 6.93 million policies in 1959. It is noteworthy that the average sum assured per policy in India increased from Rs. 3,627 in 1958 to Rs. 3,747 in 1959. The average sum assured per policy outside India also rose from Rs. 10,409 to Rs. 11,969 during the same period. The average sum assured per policy for all business too went up from Rs. 3,666 in 1958 to Rs. 3,805 in 1959.

The pattern of distribution of new business, according to the different plans of insurance, also showed perceptible change. Whole life policies, which formed 7.98 per cent. of the total business in 1958, rose to 8.47 per cent. in 1959. Children's policies, too, increased from 5.08 per cent. of the total in 1958 to 6.99 per cent. in 1959. Similar increases were also seen in Joint Life and Miscellaneous plans. Endowment assurances, which accounted for 69.43 per cent. in 1958, declined to 64.79 per cent. in 1959. Although it cannot be said that this change in pattern proves that need-selling is developing, it is certainly an indication that the concept of life insurance as a medium of ensuring future security and as means of providing for expenses on education, marriage, etc., is getting better understood. But the progress of this trend deserves to be speeded up. In this respect, a State-owned institution has a greater responsibility than insurers in the private sector whose primary motive is profit.

Other progress indicators also showed that life insurance is progressing fast and on right lines. The lapse ratio, that is, the ratio of sum assured lapsed *less* sum assured revived to the mean business in force in the year recorded a further decline in 1958, the latest year for which data are available. Thus, the lapse ratio was 5.1 in 1958, as against 6.4 in 1957, 9.1 in 1956 and 7.6 in 1955. The expense ratio, too, showed a declining trend. The overall expense ratio, that is the ratio of expenses to premium income for the year, was 28.7 per cent. in 1959, as against 29.2 per cent. for 1958. The renewal expense ratio, at 12.92 per cent., was not only lower than the previous year's figure of 15.46 but actually below the statutory ceiling of 15 per cent.

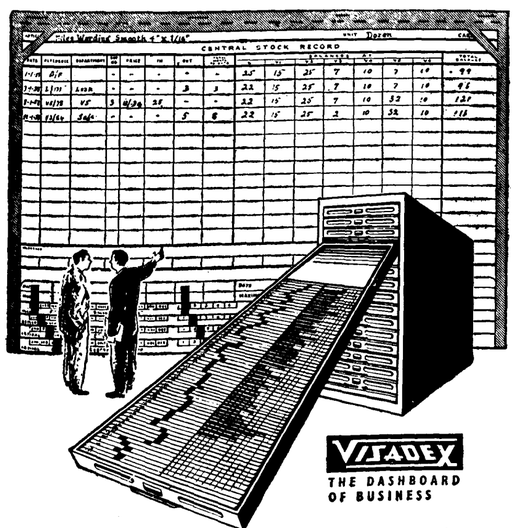
While the trend of new business, expenses and lapses has been encouraging, the progress of some of the new plans of assurance tended to be in the opposite direction. The much-publicised *Janata Scheme*, which is tailored to suit the needs of low income groups and which involves door-to-door collection of premium, has not made any worthwhile progress, except perhaps in one or two places. It has been found from experience that, since the Corporation issues policies for Rs. 500 and above under its ordinary plan, most people preferred to go in for such ordinary policies in preference to *Janata* policies. Progress of the group insurance scheme also does not appear to be very encouraging. The Salary Saving Scheme, on the other hand, is said to be becoming increasingly popular.

New business done by the L.I.C. during the first six months of 1960, at Rs. 102.27 crores, though higher than in the corresponding period of 1959, was at a rate not sufficient to reach the target for the year, namely, Rs. 525 crores, fixed under the Corporation's own five-year plan. The shortfall in new business during the first nine months of 1960 is estimated to be about 10 to 12 per cent. The last quarter is a period of hectic activity and rush business and it remains to be seen whether business during this period will make good the shortfall in the previous months and hit the target of Rs. 525 crores which itself is a far cry from the 1963 target of Rs. 1,000 crores.

Judged by the number of items insured, as well as the percentage of exports covered, the performance of the Export Risks Insurance Corporation is encouraging. During the fifteen-month period ended 31st December 1959, the Corporation issued 302 policies, with a total liability of Rs. 9.87 crores, as against 146 policies with a total liability of Rs. 7.52 crores in the previous twelve-month period. Premium income increased to Rs. 2.63 lakhs from a mere Rs. 43,101 in the previous year. Insured exports covered 67 commodities exported to 94 countries and amounted to about 1.5 per cent. of India's total exports and 3.67 per cent. of the estimated insurable exports. Two additional incentives have been offered by the Corporation to induce small and medium-sized exporters* to avail themselves of the services of the Corporation. First, the Corporation advances money to insured exporters against the amount payable as claim, provided they furnish a bank guarantee. Secondly, in respect of applications received on and after 1st February 1960 for approval of credit limits not exceeding Rs. 20,000, the fee for credit reports has been halved.

Policies Issued

The total number of policies issued by the Corporation during the first half of 1960 aggregated 135, as against 110 policies during the period January to June 1959. During this half-year, the Corporation covered shipment contracts for Rs. 3.50 crores, as against Rs. 3.32 crores in the first half of 1959, that is, an increase of about 50 per cent. in the risks covered. Premium income during the six-month period was also higher at Rs. 1,05,885, as compared with Rs. 75,238 in the corresponding period of the previous year. Thus, the Corporation has made a good beginning and shows signs of promise for the future.



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A Year Of Stress And Strain

THE upswing in economic activity noticed in many of the leading countries of the world in 1959 continued apace during the greater part of 1960 particularly in the first half, a notable exception being the U.S. where some signs of slackening were in evidence as the year progressed. Industrial production continued at, or even exceeded, the high levels touched towards the close of 1959. With industries working to full capacity, there was an emergence of labour shortage, resulting in a demand for high wages which were conceded in quite a few countries like the U.K., U.S., West Germany and France. The increased industrial activity brought in its wake an appreciable increase in the demand for bank credit. There was also evidence in some countries of emerging inflationary pressures arising from the liquidity of the banking system, partly a result of the inflow of 'hot' money. This rendered it necessary to resort to measures of credit restraint, particularly for reducing bank liquidity. Apart from raising the Bank rates, the other important measures undertaken during the year included the stepping up of the reserve requirements and restricting the resort to central bank credit. Discount rates were put up, among others, in Austria, Belgium, Denmark, West Germany, Sweden and the U.K. Although the U.K. and Germany cut down their Bank rates towards the close of the year by 1 per cent., this did not signify any change in the policy of restraint but primarily a help for checking the flow of funds from out of the U.S.

Britain

In the U.K., the year was notable for two important developments in the field of credit control. In the beginning of the year, as bank credit was expanding rapidly and as the expansion was being financed largely by liquidation of Government securities, the Bank of England, in order to discourage this tendency, decided, towards the end of February, that official support would be available to the securities market only at much lower levels. A little later, in April, *for the first time*, an initial call was made on the London clearing banks and the Scottish banks for *special* deposits, the aim being to impinge directly on the liquidity of the banks. The initial call was followed by a further call in June, the two calls being expected to immobilise some £170 million of bank deposits.

West Germany

West Germany continued to face the problem of high liquidity of the banking system, to meet which the minimum reserve requirements were raised from time to time. The re-discount quotas with the Bundesbank were also reduced in two stages. Further, for discouraging the inflow of foreign capital, payment of interest on foreign-owned deposits as well as sale of Treasury Bills and bonds to non-residents was prohibited.

United States

In contrast to the general trend, the U.S. pursued a policy of relative ease, although this prescription was not without its sour taste. Actually, the year witnessed the reappearance of the loss of gold and dollars by the U.S. on a significant scale. Despite this, the authorities chose to reduce the discount rates of the Federal Reserve Banks as well as to lower slightly the legal reserve requirements in certain cities. This reflected mainly official apprehensions of a softening of the economy. It may be mentioned that industrial production in the U.S., which had touched a record level of 122 in January (1953=100), appeared to have levelled off subsequently with no signs of a renewed pick-up right upto the end of the third quarter. The authorities, therefore, decided on some measure of relaxation which, however, in some way resulted in accelerating the flow of short-term funds from the U.S. As stated already, both the U.K. and Germany reduced their Bank rates towards the year-end as a gesture of help to the weakening dollar.

India

In India, after the distinct improvement in 1959, the year 1960 was characterised by a marked strain on the economy in general and the banking system in particular. No doubt industrial production showed a further appreciable increase during the year. During the first six months of 1960, for which full data are available, industrial production showed a rise of about 13 per cent. as compared with the corresponding period of 1959. While this was very heartening, the economic scene revealed many disquieting features. First, the price situation gave cause for concern, the index of wholesale prices showed a rise of as much as 6.7 per cent. over the year (ended November) as compared with one of 3.6 per cent. in the year before. A feature of the rise was the particularly sharp increase under the group "industrial raw materials" resulting in an increase in the costs for the industry and affecting its competitive position in the export markets. Secondly, the foreign assets of the Reserve Bank were reduced to such a perilously low level that any further draft on them was out of the question and, with prospects on the export front not being particularly bright, it looked as though foreign loans would be necessary even for a minimum level of maintenance imports. Thirdly, both money supply and scheduled bank credit (see Table I) recorded a substantially larger rise (of Rs. 202 crores and Rs. 182 crores, respectively) than that in the preceding year (Rs. 154 crores and Rs. 91 crores, respectively). Over the five years ended November 1960 (which roughly corresponds to the period of the second Five-year Plan), money supply has expanded by about Rs. 675 crores and scheduled bank credit by Rs. 500 crores. It may be noted that, during the first Five-year Plan, money supply had risen about Rs. 200 crores and bank credit by Rs. 215 crores.

Sharp Spurt in Credit but Limited Rise in Resources

The sharp expansion in scheduled bank credit during the year no doubt reflected mainly the impact of increased industrial production and the diversification of the economy. While the banks were thus called upon to extend larger credit, they found that their resources were not increasing on the same scale as in the past two or three years. The state of ample liquidity so characteristic of the years 1957-59 no longer obtained. One important reason for the marked shift was the change in the arrangements for holding the P.L. 480 counterpart funds. With effect from 12th May 1960, the deposits accruing to the U.S. Government on this account are being kept with the Reserve Bank, instead of with the State Bank as was the case prior to that date. At the same time, the past accumulations of these funds with the State Bank are being transferred to the Reserve Bank in monthly instalments of Rs. 12 crores beginning from July.

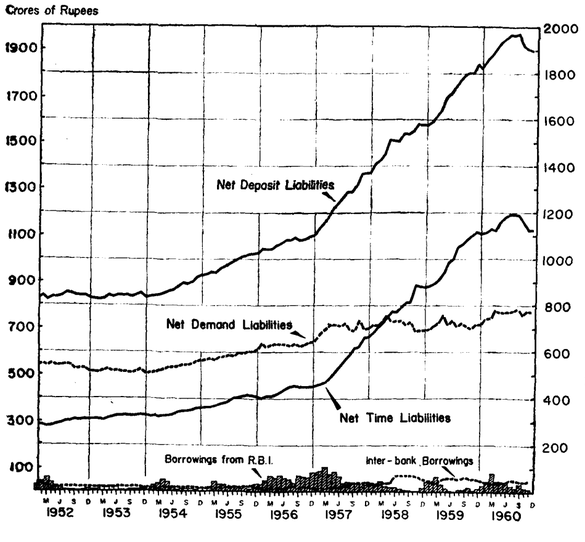
Thus, while no fresh deposits have been accruing to the banking system as a result of P.L. 480 transactions, since May something like Rs. 60 crores must have been transferred to the Reserve Bank out of the past accumulations by November. Apart from this, it would appear that, in addition, the rate of growth of deposits (other than P.L. 480) itself has probably tended to slow down during the year as would be clear from the fact that, during the 12 months ended November 1960, the deposits of scheduled banks other than the State Bank increased by only Rs. 68 crores as compared to Rs. 106 crores in 1958 and Rs. 153 crores in 1959.

While, therefore, over the year, scheduled bank credit expanded sharply by Rs. 182 crores, the *total* deposits accumulation amounted to no more than Rs. 60 crores (Table II). Moreover, the imposition of *additional* reserve requirements (referred to later) siphoned off a part of the deposits accruing to the banking system. Consequently, the scheduled banks resorted to a liquidation of their investment portfolio on a large scale. During the year, there was a reduction of the order of Rs. 128 crores in scheduled banks' investments in Government securities in contrast to an *addition* of Rs. 170 crores in the preceding year.

With the demand for funds continuing unabated, the money market ruled stringent throughout the year. Even the slack season of 1960 (May-October) had hardly any impact on bank credit, the seasonal contraction amounting to only

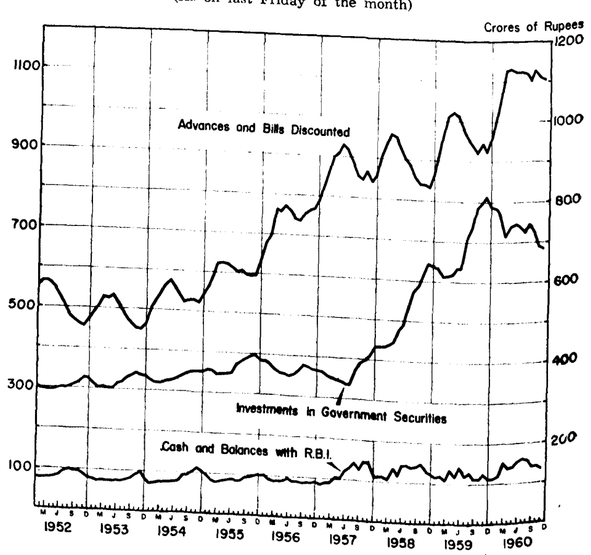
PRINCIPAL LIABILITIES OF SCHEDULED BANKS

(As on last Friday of the month)



PRINCIPAL ASSETS OF SCHEDULED BANKS

(As on last Friday of the month)



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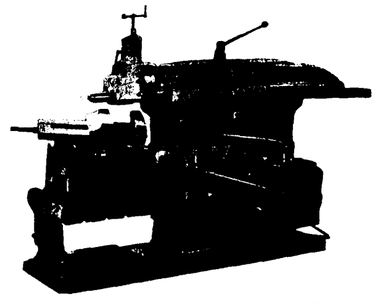
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Rs. 19 crores as against an expansion of Rs. 189 crores in the preceding busy season. The inter-bank call rate among larger banks in Bombay which had ruled at 3½ per cent. in the busy season showed no easing at all in the conventional slack season and spurted up to 4½ per cent. by November. It was as low as ¾—1 per cent. a year before.

Bank Failures

The stress under which the banking system was passing was partly reflected in the failure, during the year, of two scheduled banks, namely, the Laxmi Bank and the Palai Bank. Not since the closure of the Travancore and Quilon Bank in 1938 has the failure of any bank caused so much concern—both in official circles and the public—as the winding-up of the Palai Central Bank with deposits of about Rs. 9 crores. This has focussed attention on the need for some kind of scheme for protecting the interests of small depositors who are specially hard hit by such failures. A scheme for deposit insurance on the U.S. model is understood to be under consideration. At the same time, the non-viable units are being encouraged to amalgamate with stronger institutions. With this end in view, nine of the smaller banks have been given a moratorium during the last two months to enable them either to merge with big units or to reorganise themselves. Coming to think of this, however, one is struck by the fact that, out of the 78 reporting Indian scheduled banks, as many as 22 have deposits of less than Rs. 1 crore each while another 18 have between Rs. 1 crore and Rs. 3 crores.

Seasonal Trends

As already indicated, with the rapid industrialisation, demand for bank credit is fast losing its seasonal characteristic. Formerly, there used to be marked ebbs and flows in bank credit; over the years, these variations are tending to be less marked. In the year under review, in particular, the contraction in the slack season was very negligible, being only Rs. 19 crores as compared to Rs. 79 crores in the slack season of 1959, although the expansion in the busy season of 1959-60 at Rs. 189 crores (which was a record for any busy season) had slightly exceeded the expansion in the busy season of 1958-59 (Rs. 182 crores). Apart from high advances against iron, steel and engineering goods, the special factors which arrested the seasonal decline were the locking up of substantial funds with the sugar and textile (cotton and jute) industry. Primarily because of the limited return of funds to the banking system in the slack season, money supply with the public recorded a decline of only Rs. 87 crores as against a rise of Rs. 277 crores in the busy season 1959-60. Actually, the operations of the Government showed a surplus of over Rs. 100 crores during the period in contrast to a deficit of about Rs. 50 crores in the comparable period of 1959. Another interesting feature of the current slack season was a *disinvestment* of Government securities by the scheduled banks of Rs. 53 crores; in 1959, the banks had added Rs. 178 crores to their "investment portfolio." The reversal of the usual seasonal trend in this regard is attributable to a reduction in bank deposits which recorded a fall of Rs. 29 crores between May and October 1960, in contrast to a rise of Rs. 107 crores in the previous slack season.

Monetary Policy

The year was notable for a wide and all-pervading range of measures by the Reserve Bank for restraining credit. As a rise in prices was taking place notwithstanding a notable increase in industrial production, it seemed that expansion of monetary demand was primarily contributing to the inflationary pressures and quantitative credit restrictions were, therefore, necessary to meet the situation. It was also felt that selective controls were likely to be of only limited use in the context of the ample liquidity of the banking system. With a view therefore to hitting directly at the liquidity of the banks, on 11th March, resort was had, for the first time, to the instrument of variable reserve ratios.

In terms of the notification issued by the Reserve Bank on 11th March 1960, 25 per cent. of the deposits accruing to the scheduled banks from 12th March were impounded with the Reserve Bank *over and above* those required to be maintained till then under the Reserve Bank Act. Effective 6th May, the quantum of *additional* deposits to be kept with the Reserve Bank was raised to 50 per cent. As, however, the effectiveness of the higher reserve requirements was being nullified, to some extent, by the cheapness of, and easy access to, Reserve Bank credit, it was considered necessary to restrict their access to the Reserve Bank to the minimum necessary. From 1st October, ceiling limits were fixed for borrowings at the Bank rate, the quota for each bank being fixed at 50 per cent. of the *average* of the reserves required to be kept by it under Section 42(i) of the Reserve Bank Act. Borrowings over and above this amount will be charged progressively higher rates, the rate being one per cent. over Bank rate for borrowings upto 200 per cent. of the quota and 2 per cent. over Bank rate for borrowings beyond 200 per cent. of the quota.

Simultaneously, the banks were called upon to lever up their average lending rate by not less than one half of one per cent., with a minimum of 5 per cent. The Reserve Bank apparently chose this course for raising the structure of rates on advances, instead of raising the Bank rate straightaway, because of the fear that the repercussions of the latter on the borrowings of the Government and on the Gilt-edged market would be serious.

Early in November, with a view to assisting banks to meet the growing requirements in the ensuing busy season and in conformity with the policy of operating credit restraint measures in a flexible manner, the Reserve Bank suspended, for the time being, the *additional* reserve requirements in respect of increase in liabilities since 11th November and reduced the reserve requirements from 50 per cent. to 25 per cent., as applied to the increase in liabilities since 11th March 1960.

Treasury Bills

Reflecting the acute stringency in the money market, the response to 91-day Treasury Bills was poor as compared with 1959. Against an offer of Rs. 90 crores [in 1960 (January-November)] the total amount tendered was only Rs. 96 crores, as against Rs. 118 crores tendered against an offer of Rs. 95 crores in 1959. The amount of "Intermediates" sold were also lower at Rs. 14 crores, as compared with Rs. 35 crores in the previous year. The average rate (annual) of discount at 2.650 per cent. was slightly higher than that at 2.598 per cent. in 1959.

Branch Banking

The number of offices of scheduled banks showed a rise of 256 from 3,892 at the end of October 1959 to 4,148 at the end of October 1960. The rate of opening of new branches was, however, somewhat smaller, as compared with a year before, when the new branches opened numbered 325. During the year, the State Bank fulfilled its obligation of opening not less than 400 branches within a period of five years from 1st July 1955, as recommended in the Rural Credit Survey Report.

CURRENCY DATA

(As on last Friday of the month)

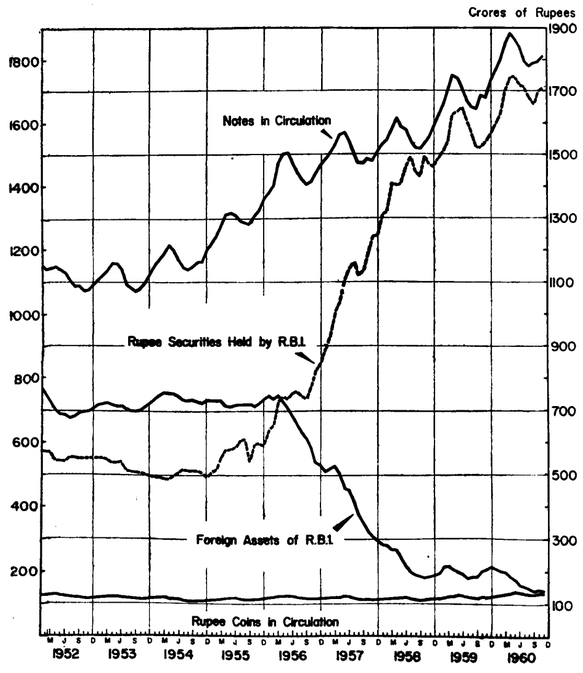


TABLE I

Variations in Money Supply and Allied Monetary Data

(In crores of rupees)

	Busy season		Slack season		Busy season		Year ended November	
	Oct. 31 1959 to April 29 1960	Nov. 1 1958 to April 24 1959	April 30 to Oct. 28 1960	April 25 1959 to Oct. 30 1959	Oct. 29 to Nov. 25 1960*	Oct. 31 to Nov. 27 1959	1960*	1959
Money supply	+277	+291	— 87	—111	+ 15	+ 2	+202	+154
Currency in circulation.	+201	+220	— 93	— 57	+ 21	— 14	+142	+128
Government deposits (Central and State)..	+ 11	— 17	— 6	— 1	— 12	— 9	+ 1	— 7
Foreign assets of the R.B.I.	— 18	+ 30	— 38	— 10	— 3	+ 6	— 64	+ 28
Loans and advances to Government ..	+ 28	+ 27	— 20	— 24	+ 3	+ 3	+ 8	— 1
Rupee investments of R.B.I.	+217	+130	— 44	—104	+ 11	+ 18	+166	+ 72
Scheduled Banks								
Demand liabilities (net).	+ 70	+ 66	+ 6	— 53	— 6	+ 16	+ 54	+ 22
Time liabilities (net) ..	+ 61	+ 50	— 35	+160	..	+ 20	+ 6	+238
Cash and balance with the R.B.I.	+ 30	— 15	+ 4	— 21	— 8	+ 8	+ 17	— 6
Advances and bills purchased and discounted	+189	+182	— 19	— 79	— 6	— 18	+182	+ 91
Investments	— 52	— 3	— 53	+178	— 5	+ 19	—128	+170

* Figures are provisional.

TABLE II

Consolidated Position of Scheduled Banks

(In crores of rupees)

	As on		Change over the year	Change in previous year
	25th Nov. 1960	27th Nov. 1959		
Liabilities (Net)				
Demand	771.38	717.14	+ 54	+ 22
Time	1,123.99	1,117.71	+ 6	+238
Total ..	1,895.38	1,834.85	+ 60	+259
Borrowings from R.B.I. ..	12.29	1.56	+ 11	..
Cash and balances with R.B.I. ..	136.25 (7.2)	119.52 (6.5)	+ 17	— 6
Investments	684.86 (36.1)	812.81 (44.3)	—128	+170
Advances	1,104.65 (58.3)	922.95 (50.3)	+182	+ 91

Note : Figures within brackets represent the percentage to total (net) liabilities.

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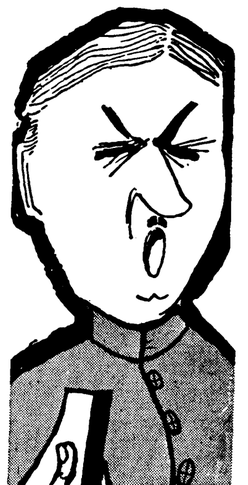
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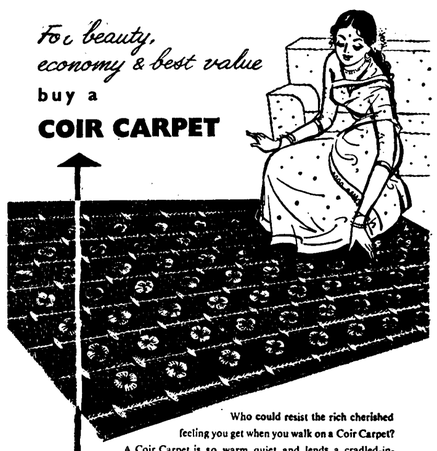
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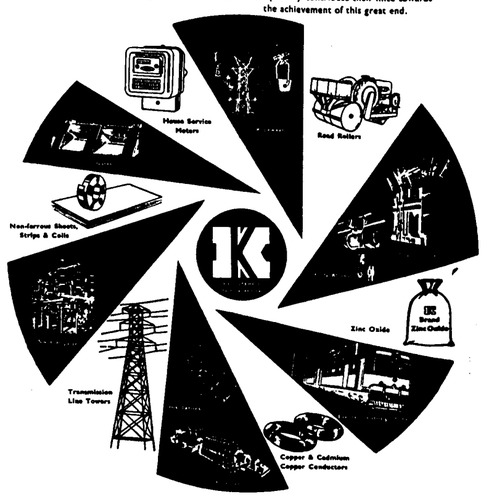
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TREND OF MARKETS IN 1960

EQUITIES SLUMP AFTER EARLY BOOM

(From Our Own Correspondents)

BOMBAY, *19th December*

IN the history of stock and share markets, the year 1950 will stand out as an important landmark. It was one of unprecedented booms. There was a buying spree in both forward and cash sections. In fact, the rise in some of the counters in the latter section was so marked that some in market circles used to argue that it was not excessive speculation but strong investment that was responsible for the strident rise in equity values. The year was also equally notable for the landslide in values which followed the boom, as a result of the various official measures taken to curb excessive speculation. The first seven months of the year witnessed a sharp upswing in prices, in continuation of the bullish trend of the previous two years, which took them to new high levels. But the entire gains were almost wiped out, and in many cases more than erased, by the subsequent recession which gathered *momentum* as the year drew to a close.

The boom conditions in the earlier half of the year were taken advantage of by quite a good number of *entrepreneurs* to enter the capital market. There was a veritable scramble for the new issues and almost every one of them was oversubscribed. A few of them were oversubscribed many times. They all commanded very high premiums unofficially even before the allotments were made. In the circumstances, it was not surprising that the issues of companies, which have good growth prospects, but have yet to start production, were quoted at very heavy premiums. The hectic speculative activity naturally invited official wrath and this was responsible for the sharp fall in the last few months of the year. In most of the new issues, the high premiums were wiped out substantially and a few of them even came to be quoted at a slight discount.

Inflationary Forces

The generally bullish trend was touched off by the inflationary forces all-round, assisted by a favourable Budget for 1960-61. The *status quo* in respect of direct taxation, the levy of indirect taxes on a scale much less than expected, the tax relief in respect of inter-corporate dividends and dividends paid out of profits taxed in the past, and further extension of tax holiday for new companies by five years were all factors which sustained the buoyancy. Barring the month of March, when there was a sharp setback on account of the imposition of credit restrictions, the trend was distinctly upward up to the end of July, when the year's peak levels were touched. The higher levels, however, attracted heavy selling on fears of stiff official measures to check speculative activity. Renewed apprehensions about a rise in the Bank rate, increase in lending rates of banks, cut in cloth prices, continued deterioration in foreign exchange situation and the consequent cut in imports of raw materials and delay in the announcement of retention prices of steel were the main bearish factors which induced sustained selling and wiped out a good part of the gains that had been recorded in the earlier half of the year. The undertone at the time of writing is one of diffidence. The Finance Minister's hint at the prospect of a larger dose of indirect taxation during the third Plan and the reported official insistence on all existing companies issuing new shares at a premium have shaken the confidence of operators in the last two weeks.

The buoyancy witnessed in the earlier half of the year is reflected in the rise in the Reserve Bank of India index number of variable dividend securities for all-India (Base: 1952-53=100) from 160.0 in the week ended 26th December 1959 to a high of 182.0 in the week ended 23rd July 1960. Similarly, the subsequent recession is reflected in the fall in the index number to 168.1 in the week ended 10th December 1960. The net rise over the year so far is 8.1 points, as against 23.5 points or 17.2 per cent. in 1959 and 16.3 points or 13.6 per cent in 1958. The regional index for Bombay shows a rise of 7.7 points, that is, from 164.9 to 172.6, as compared with the rise of 26.8 points in 1959 and 19 points in 1958.

The rise of 8.1 points in the general index or of 7.7 points in the regional index may be somewhat misleading, in that not all industrial groups participated in the rise to the same extent; nor did they all end the year with a profit. Some of them suffered sizable losses over the year, while a few others recorded handsome gains, as will be evident from the following table, giving the group-wise fluctuations:

	Week ended			Change over the year
	Dec. 16, 1960	Highest	Dec. 26, 1959	
Coal ..	112.4	124.2	104.8	+ 7.6
Sugar ..	192.2	196.6	186.1	+ 6.1
Cotton textiles ..	146.2	163.6	140.2	+ 5.0
Jute textiles ..	83.9	98.4	94.5	— 10.6
Silk and woollen ..	1032.7	1167.9	743.6	+289.1
Iron and steel ..	152.3	189.6	157.5	— 5.2
Chemicals ..	210.1	229.9	189.6	+ 20.5
Cement	140.8	150.8	131.6	+ 9.2
Paper	218.2	237.0	212.7	— 5.5
Electricity ..	81.5	84.1	87.8	— 6.3
Shipping and other transport ..	104.2	119.1	122.7	— 18.5
Banks	199.6	200.5	187.8	+ 11.8
Insurance ..	134.3	155.3	139.1	— 4.8

It will thus be seen that shipping and transport shares, particularly shipping, were the worst affected. Electricity shares were also quiet for reasons stated below. Iron and steel scrips were not far better, despite the fact that the industry is a basic one. The grim short-term outlook depressed jute shares. At the other end of the scale, silk and woollen were the most prosperous ones, followed by chemicals and banks. The last named section came to be fancied by investors almost towards the close of the year as the yields on bank shares were attractive and the profit outlook for them had considerably improved.

A disquieting feature of the year's activity was the general loss of interest in preference shares and debentures of joint-stock companies. The general apathy for preference shares, in particular, is reflected in the fall in Reserve Bank index number from 91.8 in the week ended 26th December 1959 to 85.6 in the week ended 10th December 1960 thus more than wiping out the previous year's rise of 3.9 points. This was due to the fiscal changes, resulting in a reduction in the quantum of dividend to which the shareholders were entitled. In response to the representations made by various classes of investors, the Government passed a legislation providing for a modest increase in the quantum of preference dividends by companies, but this increase was considered inadequate and as such failed to infuse confidence among investors in this class of shares.

The Bombay Stock Exchange opened on a subdued note, the bullish fervour noted in December 1959 having abated. Sentiment was affected by budget uncertainties, apprehensions regarding the outcome of the Congress session at Bangalore. Reports that the Central Wage Board for the Cotton Textile Industry had recommended an increase in basic wages to textile workers and the diversion of sizable funds to new industrial issues were the additional bearish factors which brought down equity prices. The trend continued throughout January, the Reserve Bank regional index for equities (for Bombay) dipping to a low of 157.2 in the week ended 30th January. The bearish trend proved a short-lived affair and a bullish tendency set in, which became pronounced in the subsequent six weeks, the Reserve Bank index moving up to 171.9 in the week ended 12th March. The favourable budgetary proposals referred to above and encouraging corporate news were mainly responsible for the revival of bullish trend.

Upward Trend Resumed

After two weeks of sharp reaction on fears of an increase in the Bank rate and banks' lending rates and the imposition of restrictions in respect of advances against shares and the ban on financing of *budla* transactions by banks, equities once again resumed their upward trend. This was sustained almost unbroken up to the end of July, the Reserve Bank regional index for Bombay shooting up from 161.7 in the week ended 26th March to the year's peak of 189.1 in the week ended 23rd July. The Reserve Bank's action in raising the quantum of additional reserves to be kept by the Scheduled banks and the tightening of the margin system and the introduction of special deposit scheme by the Stock Exchange authorities to curb excessive speculation had virtually no effect, except for a slight sentimental reaction immediately after their enforcement. The buoyancy was swayed by encouraging corporate news, expansion prospects for various industries and hopes of an early increase in retention prices of steel. The craze for capital appreciation dominated the operators' minds and yield considerations were totally ignored.

The Finance Minister's statement in Parliament early in August that the trend of prices on the Stock Exchanges was being closely watched and that every effort would be made to restrain speculative activities, the cut in cloth prices by mills once in August and again in September under compulsion from the Government, the new scheme of credit restraint and the increase in the lending rates of banks following the Reserve Bank's directive and fears of further stiff measures to curb speculation, all brought about a shake-out in equities. Investors suddenly began to realise that yield on a scrip is an important consideration and began to shy away from scrips quoted at fantastically high levels. The steep fall in prices in the months of August and September is reflected in the decline of the regional index to 170.1 in the week ended 8th October.

There was, however, a slight improvement in prices in the subsequent six weeks, as indicated by the rise in the Reserve Bank's regional index to 175.8 in the week ended 19th November, but activity was far from brisk. Some speculators had long tried to keep up the morale of the market, but, as they had no following from investors and as the bears began to exploit the inherent weakness of the bulls, this improvement was not sustained. The operators' confidence was somewhat shaken by fears of fresh curbs on joint-stock companies, as indicated by the Union Government's decision to fix a ceiling on promotional expenses of companies at 1.5 per cent. of the estimated cost of a project where corporate enterprises were managed by managing agents and at 2 per cent. in the case of companies managed by boards of directors and to fix a time limit of three months from the date of receipt of application for allotment of shares or new companies. The difficult balance of payments position, resulting in a cut in imports of machine tools, and the prospect of the steel industry not achieving its target of production envisaged under the expansion programmes, due to inadequacy of metallurgical coal and irregular supplies of other raw materials, also upset the sentiment. As the year drew to a close, the selling pressure gathered momentum for the following reasons:

Bearish implications of the Finance Minister's reported statement at a meeting of the Informal Consultative Committee of Parliament that the country was in for a period of increased taxation and that it was the Government's policy to insist on a premium being charged when established companies raised fresh capital.

The Maharashtra Government's proposal to fix a ceiling on landholding, which it was feared would be made applicable to sugar companies having their own farms in the Deccan.

The prospects of drastic cut in import of rayon grade wool pulp and intermediates for chemicals.

There was, therefore, heavy selling in sugar, chemical and rayon shares which affected other counters too. The resulting fall in equity values is reflected in the decline in the Reserve Bank's index to 172.6 in the week ended 10th December 1960. In the subsequent week, there was a further landslide in values, which in many cases more than wiped out the gains in the earlier months of the year.

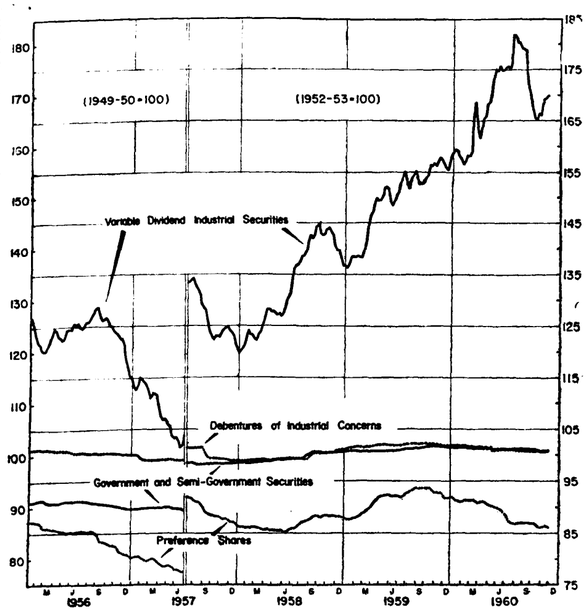
Steels

Sectionwise, steel shares were in the forefront and contributed to a large extent to the general rise in equity values during the first half of the year. This was based on expectations of an increase in steel retention prices. The increase in steel retention prices. The Government's reported sanction of the Tata Steel's project for manufacturing alloy steel also contributed to the strength of Tata Ordinaries. After an early dip from Rs. 159.50 to Rs. 143.25, the scrip gradually hardened to touch a high of Rs. 164.50 in May. While the uncertainty over the dividend for 1959-60 made operators cautious, especially as it was postponed for some weeks on account of the delay in the announcement of retention prices, the undertone was fairly steady. The announcement of a dividend of Rs. 6.80 per share tax-free, same as for the previous year, on 1st September, without awaiting further the increased prices, however, brought heavy selling, pushing the scrip to Rs. 151.75 on 27th September and further to Rs. 140.25 *ex-div.* on 28th October. The announcement of an increase of Rs. 4.85 per ton in the retention price of steel on 11th November under the escalator clause, without any allowance to compensate the rise in costs under non escalator clauses, caused a disappointment in market circles bringing down Tata Ordinaries to a low of Rs. 138.75 on 16th December. At the close, however, they stood at Rs. 140.75, representing a fall of Rs. 18.75 over the year. Indian Irons came up to Rs. 25.55 from a low of Rs. 21.84 touched in January. After a setback to Rs. 23.60 in July, the scrip hardened to Rs. 26.10 in August, following the announcement on 9th August of a dividend of 15 per cent., subject to deduction of tax, or 10.5 per cent. tax-free, as compared with 10 per cent. free of tax for 1958-59. In the face of the general pressure, however, the scrip could not sustain this recovery and quickly came down to Rs. 22.16 *ex-div.* Later on, there was a fair recovery and the closing was done at Rs. 23.20, a loss of only 20 nP over the year.

Textiles

The Central Wage Board's recommendation of higher wages for textile workers caused a mild flutter in textile shares early in the year. But the increase in cloth prices and the heavy

INDEX NUMBERS OF SECURITY PRICES—ALL-INDIA



depletion of stocks following good demand, lifted up cotton mill shares. Centurys shot up to Rs. 544 *ex-div.* (dividend: Rs. 22.05 per share) in July from the low of Rs. 429 touched in March, as against the previous year's close of Rs. 456. In the subsequent months of the year, there was a landslide following the two successive cuts in cloth prices and the announcement of a third cut to be effective from 1st January 1961. Centurys slipped back to Rs. 444 in December before closing at Rs. 454. Bombay Dyeings finished the year with a loss of Re. 1.40 at Rs. 60.90 after touching a peak of Rs. 72.50. Hectic activity and wide fluctuations were noted in Kohinoors. Moving up from Rs. 337 to Rs. 372 *ex-div.* (dividend: Rs. 6.65 per share), the scrip slumped to Rs. 266 at the close, representing a fall of Rs. 71 over the year. Standards were in the forefront with a hectic rise from Rs. 861 in the beginning of the year to Rs. 2,100 in August on expectations of attractive rights issue. Subsequently, the scrip staged a sharp retreat to close at Rs 1,015. Khataus were likewise concerned in a hectic activity, which pushed up the scrip from Rs. 267.50 to Rs. 850 before reacting to Rs. 452.50 at the close. Finlays recorded a gain of Rs. 11 over the year at Rs. 322, while Svadeshis suffered a loss of Rs. 54 at Rs. 224 and Tata Mills Rs. 8.50 at Rs. 39.50.

Electricity shares failed to attract investment support, in spite of the low levels at which they stood. This was due to the none-too-helpful attitude of the Government on the issue of return on capital employed. Actually, this section registered a fall in prices. There was a drop of Rs. 5.70 to Rs. 85.20 in Ahmedabad Electrics. Bombay Suburbans were marked down by Rs. 13.50 to Rs. 85.50. Tata Hydros fell by Rs. 8.25 to Rs. 102.25, Tata Powers by Rs. 107.50 to Rs. 1,032.50 and Andhra Valleys by Rs. 90 to Rs. 1,000.

Sugar shares came in for heavy selling towards the close of the year, particularly in the last fortnight of the year, on reports that the Maharashtra State Government proposed to introduce a ceiling on landholdings. Earlier in the year, the prospect of encouraging results for the year 1959-60 and a consequent higher dividend, as also the acquisition of another sugar mill had pushed up Belapurs from Rs. 335 to Rs. 435 in June. After a reaction to Rs. 347 in October, the shares hardened to Rs. 410 following the announcement of a dividend of 40.60 per cent. free of tax, as against 29.40 per cent. for the previous year. Subsequently, however, the shares fell sharply to close at Rs. 329. Phaltans shed Rs. 18 to Rs. 161.50 and Walchandnagars Rs. 70 to Rs. 250.

Cement shares were conspicuously dull and fluctuations were narrow, in contrast to the general trend. The implications of the increase in wages given with effect from 1st January 1960 as recommended by the Central Wage Board and the rising trend in costs of manufacture acted as the main damper. Associated Cements declined from Rs. 151.50 to Rs. 137.50 *ex-div.* (Rs. 7.70 per share net) in March. After a rise to Rs. 152 following the higher dividend of 12 per cent. subject to deduction of tax or 8.4 per cent. for the year ended 31st July 1960, the scrip slipped down to Rs. 149 at the close. Digvijays were unchanged over the year at Rs. 145, though the highest level touched was Rs. 182.

Automobiles were bullish during the earlier part of the year and in a brisk activity established new high levels. Hindustan Motors leaped up from Rs. 14.32 in January (to which level they had declined from last year's closing of Rs. 16.40) to Rs. 23.64 in July. Likewise, Premier Automobiles spurted from Rs. 141 *ex*-rights (last year's closing was Rs. 163.50 *cum*-rights) to Rs. 197 in July. Most of the gains were wiped out in the subsequent months. Hindustan Motors closing at Rs. 19.68 and Premier Automobiles at Rs. 164. Shippings were distinctly quiet in view of the poor results of companies for the past year and discouraging outlook. Scindias closed with a loss of Rs. 2.60 over the year at Rs. 14.72 and Great Eastern Shippings were Rs. 5.04 lower at Rs. 15.20.

Rayon shares created history with handsome rises, the most helpful factor being the absence of any increase in excise duty on rayon yarn in the last Budget as feared earlier. Towards the close, however, sentiment was somewhat affected by reports that the import of rayon pulp would be cut by 10 per cent. National Rayons hit a peak of Rs. 617 before closing at Rs. 478.50, an increase of Rs. 100.50 over the year. Gwalior Rayons gained Rs. 11.50 over the year at Rs. 39.50, the highest level touched being Rs. 51.50.

Engineering shares presented a mixed pattern. Earlier in the year, they were very popular and recorded smart gains, but lost considerable ground latterly. In some cases, the earlier gains were more than wiped out. Alcock Ashdowns touched a high of Rs. 380, but closed at Rs. 238 with a loss of Rs. 36.50 over the year. Premier Constructions lost Rs. 79.50 at Rs. 287, the highest level touched being Rs. 390 *ex-div.* (dividend: Rs. 12.60 per share net). Tata Locomotives provided the highlight of the section with a rise of Rs. 80.50 to Rs. 294.50 (the highest level was Rs. 349), on encouraging outlook for the Company. Voltas were lifted up from Rs. 197 to Rs. 303.50 before they wound up at Rs. 263. Bombay Burmahs were relatively less conspicuous. After gaining ground from Rs. 576.50 to Rs. 658, the old shares gave way to Rs. 559.50. The movements in Indian Dyestuffs provided a typical instance of the hectic activity in chemicals and dyes shares. The scrip advanced from Rs. 495 to Rs. 1,000 before sliding back to Rs. 436.25 (the lowest level touched being Rs. 395.)

CALCUTTA STOCK EXCHANGE

CALCUTTA, 16*th December*

For stocks and shares, the year 1960 would be remembered as a memorable one. There was a marked increase in investment activity, as a result of which, for a good part of the period, boom conditions were in evidence on the Calcutta Stock Exchange. New industrial issues caught the attention of a wider range of investors and the speculative attention which followed took some of the new scrips to very high levels, which were not justified, considering that they would not be able to yield any return for a few years to come. Appreciation of these shares was quick, and the profits that were made by enterprising people became a source of anxiety for the Government of India. Early in March, the Reserve Bank tightened the credit control measures by restricting bank advances against shares, but this did not have much effect. In the last quarter of the year, however, the boom began to peter out. The critical attitude of the Government to the share market boom, the indirect increase in the Bank rate in October, the reimposition of controls on textiles and the heavy rise in the price of raw jute—all these curbed the bullish enthusiasm and encouraged the bears to be a little active. Investors, too, began to follow a cautious policy. The deepening foreign exchange crisis was reflected in the continued restrictions on imports, and the announcement of severe curtailment of the import quotas for twelve items in November highlighted attention on the Finance Minister's statement that, in the coming years, foreign exchange situation would be pretty difficult. This led to serious doubts whether the flow of raw materials from abroad would be smooth. Although the encouraging views of Mr. Kennedy, following his success in the Presidential elections in the U.S.A., led to hopes of increased U.S. interest in and aid for Indian development, they were offset by the continued balance of payments problem of the U.S. The continued unfriendly attitude of China towards India and the dissatisfaction in West Bengal over the Centre's proposal to transfer a part of the Berubari union to Pakistan also prevented a broadening of activity in the last days of the year.

A glance at Table I, which depicts price movements in the thirteen scrips in the forward list, indicates that most closing levels for the year are substantially higher on balance. This is also the case with most other equities quoted on the Calcutta Stock Exchange. In some of the more popular counters, the gains recorded were even more impressive. While some shares were able to maintain the gains and stabilise themselves at higher levels, in some the gains were partially lost. The publication of encouraging corporate results from time to time and the increasing tempo of industrial production were the basic factors that sustained the confidence of investors.

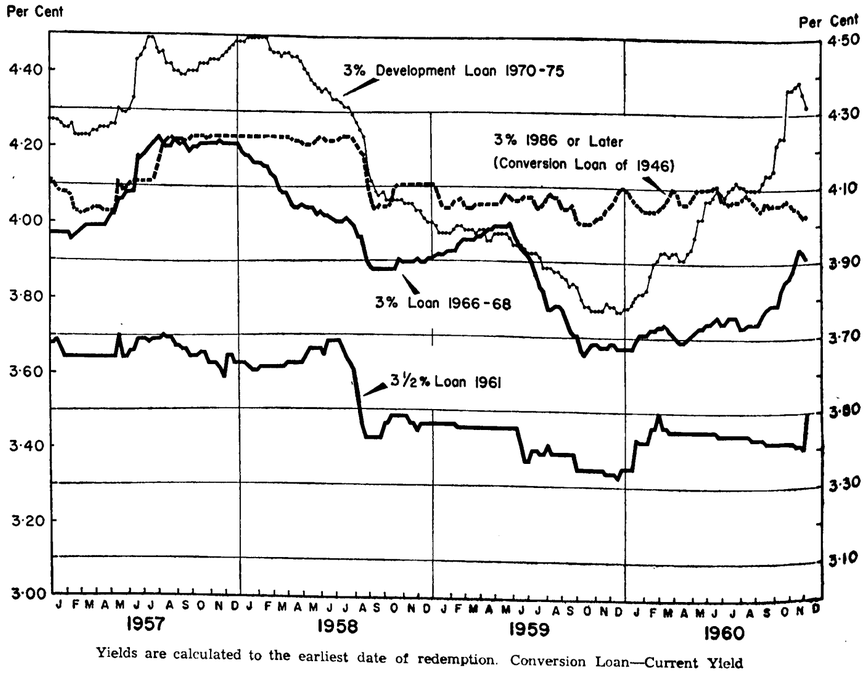
After a firm opening early in January, prices sagged later in the month under the impact of pre-budget rumours such as dividend limitation and increase in corporation tax. The lack of firm views from the Bangalore Congress about the solution for the difficult economic problems facing the country was also construed as a bearish factor. February was a listless month. In the context of the Pay Commission's report and increased Government expenditure, the market got itself prepared for increased direct taxation in the Budget. These apprehensions were belied when the Budget proposals were announced and activity soon became hectic, but, on 11th March, following the Reserve Bank's announcement of measures to tighten bank credit and advances against shares, there was a severe shake-out. Early in April, prices moved up and the fact that the scaling down of advances by banks in accordance with the Reserve Bank's directions passed off without strain and distress selling created confidence. The buoyancy that set in in May continued to take prices up until the sharp turn in the international situation following the Paris fiasco. June and the first half of July were a period of comparative calm and lull. Towards the end of July, however, strong boom conditions set in and the shares of new flotations touched new high levels. Then, there were rumours that the Government was contemplating certain measures to put down excessive speculation. These led to active profit-taking which resulted in a rapid fall in values in August. After a brief respite and modest recovery caused by short-covering, came a fresh dose of credit-squeeze measures in September. The austere import policy announced in October highlighted attention on the difficult foreign exchange crisis and the Finance Minister's announcement in the Lok Sabha left no doubt that, while in the second Plan the foreign exchange crisis developed only after the Plan had commenced, the third Plan would have to start with the acute scarcity of foreign exchange. Doubts if help could be expected to the extent desired led to caution and values were affected. The increasing number of Indo-foreign technical and financial collaboration projects was a factor which led to hopes that, despite difficulties, sufficient progress could be achieved in the private sector. Against this background, a modest recovery was made and particular counters in the miscellaneous industrials section attracted considerable attention, towards the end of the month, there was a tendency among operators to book profits, induced by apprehensions of unpleasant surprises in the Central Budget. Caution was predominant and long-term investments were fewer.

Having thus discussed in brief the main events which moulded market activity, in general, the following paragraphs are devoted to a brief discussion of particular factors which influenced the sentiment in one way or the other in the different sections during the year. Table II depicts the movement of prices as determined by the variable dividend industrial securities—All-India—of the Reserve Bank.

Coals

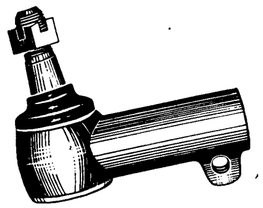
The increasing trend in coal consumption should have ordinarily boosted coal shares; but the Government of India's policy with regard to pricing, despite desperate representations, denied the coal mines the prosperity which should have been theirs otherwise. The official lopsidedness fettered the mines from expanding to adjacent areas and intensive production was not made possible by the increasing cost of production, made all the worse by the statutory provisions for labour welfare and amenities. Labour legislation had also its own share which checked the flow of funds to the coal section. It is a paradox of the present-day economic thinking in the country that official attempts in effect mean the relation of wages to a socialistic pattern of society but not to productivity and *per capita* production. And statistics aid the view that the *per capita* production has fallen in a marked way, while production costs have increased in a perceptible manner. For these and other reasons, coal production has not increased by the degree required to keep pace with industrial advancement, and, as Mr. Biron Mookherjee, in his excellent address to the shareholders of the Indian Iron and Steel Company, Ltd., pointed out in November, the quality of the output in collieries had also deteriorated. It was

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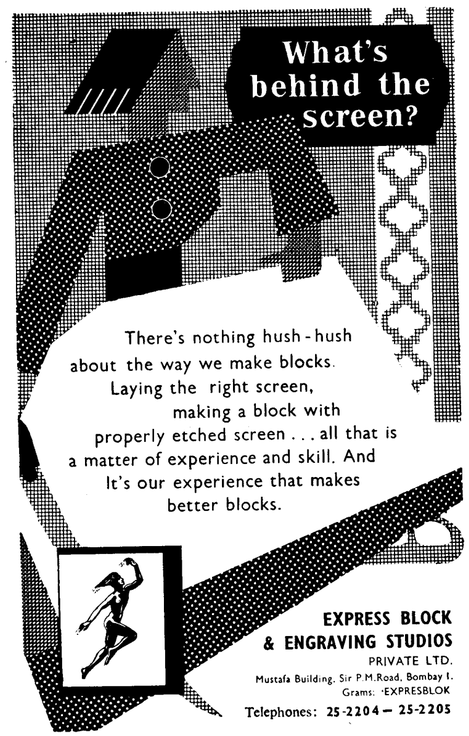
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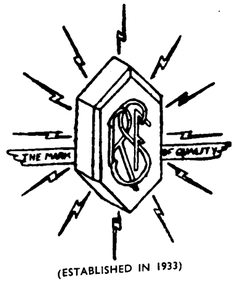
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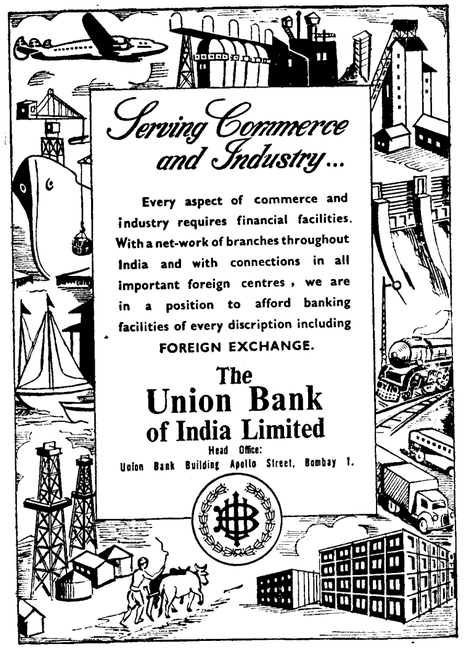
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only towards the close of the year that the Government of India grudgingly conceded the need for amending its coal policy and announced that coal mines producing first-grade coal would be permitted limited expansion facilities. Following this development, interest in coal shares began to widen. The issue of rights shares by the Bengal Coal Company Ltd. was welcomed, albeit the premium of Rs. 100. Government's policy with regard to right issue at premium came in for much criticism since recent issues of rights had shown that New Delhi was bent upon following a whimsical policy inasmuch as permission was given to several companies to issue new shares at par. Bengals closed the year firm at Rs. 346, as compared with Rs. 296 early in the year. Central Indias rose to as high as Rs. 11.87 from Rs. 9.03.

Jutes

In the earlier months of the year, jute shares recorded fair progress towards higher levels, induced by increased production in mills and more demand for goods from foreign countries. The fall in raw jute prices led to hopes of better working results of mills early in the year. This, however, proved a short-lived phase, as, with delayed sowing, apprehensions that the coming crop would not be adequate to meet needs of mills were entertained, and fibre prices began the upward swing, and by October-November reached very high levels. The drastic measures taken by the Forward Market Commission to restrain speculation checked the uptrend for a while, but the shortage released a keen sense of speculation and, as the year was coming to a close, it appeared as though the higher levels had come to stay. In these circumstances, investment buying of jute shares became cautious; if anything, holders exhibited an eagerness to liquidate their possessions later in the year. In September, jute mills began to reduce production due to the paucity created by fibre. Exports of goods were diminishing, and, in October, they reached a new monthly low. The increase in stocks of goods by the end of November also led to bearishness. These were factors which continued to make inroads in jute share values. Exactly a year ago, Aucklands were quoting as high as Rs. 200, but the current quotation is as low as Rs. 147. Birlas, after touching a new high of Rs. 33 in mid-May, against Rs. 24.06 early in the year, were around Rs. 28.87. Satisfactory progress in diversification of production by a few mills led to greater interest in the shares of such mills. New Centrals were one such counter, and touched Rs. 30.06, as against Rs. 24 early in the year, but, as the year came to a close, they retreated to Rs. 21.31. The entire gain was lost.

Steels and Engineerings

Although hectic rises were not in evidence in Indian Irons among engineering shares, the section generally received good attention throughout the year. At one time, the gains were much impressive, and, as in other sections, the closing levels are higher on balance. Fears of excessive steel production in the country in general depressed Indian Irons earlier in January, and the shares were quiet at Rs. 23.26. It was soon realised that the increased cost of production was not accompanied by a rise in selling prices. For this reason, early in February the rate eased to Rs. 21.80. The increase in railway freight by 5 per cent. also affected sentiment in general. However, in the general cheerfulness released by the budget proposals, Indian Irons rose to Rs. 24.13 by early March. The higher output in March and hopes of increased steel retention prices on consideration of the mounting output costs arrested a declining phase that had set in in April and the share regained to Rs. 23.50 from Rs. 22.87. The announcement of higher retention prices for Mysore Iron and Steel Co. Ltd. led to expectations of a similar development for the Indian Iron and Steel retention prices and, by May, the share hardened to Rs. 26.35, which incidentally was the highest level for the year. However, lower production for June affected sentiment, and the price declined to Rs. 23.37 in July. The shortage of coal and the unlikelihood of expansion in the steel plants in the private sector also affected sentiment. In July also, production was smaller, but the price was steady around Rs. 25 in July-August, following the general boomlet conditions. Despite the general dullness caused in September, in the wake of Government's decision to hold an inquiry into economic disparities, Indian Irons ruled firm around Rs. 26.05. Expectations of an imminent announcement of increased retention prices steadied the counter for some time; however, when this was announced, it was found that the increase would not go to improve the return to shareholders. Further, Mr. Biren Mookherjee's warning that, if a solution was not found to the existing coal shortage, steel production would not rise to the extent desired caused bearishness, and the scrip was around Rs. 23.64. For a time, following the announcement of good production results for November, the price had gone up to Rs. 24.13 in early December, but eased thereafter to Rs. 23.46.

Among other shares in engineerings, those that were taken to progressively higher levels included Indian Oxygens on expectations of an imminent rights issue. Guest. Keen. Williams, following the issue of a rights issue and satisfactory progress in expansional plans, were favoured and reached a rate as high as Rs. 51, while exactly a year ago the quotation was Rs. 45. Hooghly Dockings were also steady. On the other hand, on a disappointing dividend, Texmacos reached a low of Rs. 21.50 in October, as against Rs. 26.65 early in January. Subsequently, however, a reaction reduced the loss by raising the rate to Rs. 23.25.

Teas

Good working results for the last accounting period caused, for a time, a bullish fervour in the tea section; however, the prolonged drought during April-May-June and the loss of production of good quality teas caused selling pressure. The disruption to railway transport following the strike by the Central Government employees affected despatches of tea from gardens to Calcutta. Tea arrivals continued to be below normal, as the transport difficulties were followed by communal disturbances in Assam. Exports also were lower. But towards the end of the year, a small recovery was in evidence, in view of better prospects for the new season which is expected to commence with a poor carryover. Exactly a year ago, Brooke Bonds were quoting Rs. 18.62 and the rate now is around Rs. 16.12. On the other hand, Bishnauths are quoting higher at Rs. 20.94, as against Rs. 20.62 a year ago.

Paper Mills

The increasing production in mills, followed by greater demand, and import cuts were factors which contributed to livelier interest in shares of paper mills. West Coast Papers touched a high of Rs. 225 and Bengal Papers of Rs. 104, against Rs. 163 and Rs. 95.50 early in the year. Sirpur Papers were another counter that met with persistent support and reached Rs. 18.62 from Rs. 13.62 to steady around Rs. 17.53 in December. Ballarpore Papers, India Paper Pulps, Shree Gopals and Orient Papers were other counters that met with good support and touched the high levels of Rs. 76, Rs. 19.75, Rs. 30.75 and Rs. 48.85, respectively. A good portion of the gains was washed away early in December following the publication of the annual reports of Titaghur Paper Mills and Rohtas Industries which disclosed that the reduction in paper prices as a result of the Tariff inquiry had reduced the profits.

Shippings

During the year, shipping shares met with little attention, and a poor working report pushed down India Steamships to as low as Rs. 9.27 in December from Rs. 12.25 early in the year. It was all along a progressive decline. That shipping lines were facing considerable difficulty was only made too clear by the speech of the chairman to the annual meeting of the shareholders of India Steamship Company, Ltd. Also, note was taken of the fact that reserves had to be drawn upon for the announcement of a dividend. Although dullness was the general trend in shippings, India General Navigations, on interested buying, recovered from Rs. 60.75 to Rs. 70. However, it should be noted that the scrip was quoting Rs. 72 a year ago.

Miscellaneous Industrials

Several miscellaneous industrials touched new highs during the year. This was due to expansion of existing capacity and the increase in sales of products. The virtual ban on import of consumer goods aided such counters as Hindustan Motors and Alkali and Chemicals to score the high levels of Rs. 23.75 and Rs. 37, as against Rs. 15.44 and Rs. 23.12 about a year ago. With the increase in production of items such as electrical cables, non-ferrous semi-manufactures, automobile parts, batteries and rubber products, etc., and with imports of these either banned or severely restricted, the companies making these products were doing well and their shares were, therefore, strongly fancied. National Pipes and National Rollings met with investment attention and at Rs. 21.25 and Rs. 19.94 touched new highs. On excellent working report, National Cables crossed Rs. 30 as against Rs. 27.12 early in the year. Balmer Lawries met with keen support and hardened to Rs. 220 from Rs. 198. Karanpura Developments, Jayshree Textiles, Aluminium Corporations, Dunlop Rubbers, Angelo Bros., Martin Burns, Associated Batteries, Electric Constructions, Jardine Hendersons, Clive Row Investments, Union Carbides and Rallis were among other counters that were able to stage a quick and smart appreciation.

TABLE I

Price Movements on the Calcutta Stock Exchange in 1960

Scrip	1959 closing on 30th December	Lowest touched		Highest touched		Closing as on 15th December 1960	Net rise (+) or loss (—)
		Rate	Date	Rate	Date		
	Rs.	Rs.		Rs.		Rs.	Rs.
Burrakur	18.00	16.12	15- 9-60	21.06	21-7-60	18.50	+0.50
Howrah	24.62	19.50	6-12-60	25.12	7-3-60	19.87	—4.75
National Jute ..	27.00	19.50	21-11-60	33.50	9-1-60	20.00*	—7.00
Indian Copper ..	4.00	3.77	25-1-60	5.48	26-7-60	4.48	+0.48
Indian Iron ..	23.22	21.60	27-1-60	26.35	16-5-60	23.33	+0.11
Texmaco	26.65	21.50	25-10-60	29.80	6-8-60	23.10	—3.55
Dunlop Rubber ..	36.00	35.62	22-2-60	49.50	21-7-60	41.87	+5.87
Indian Aluminium ..	23.75	24.06	4-1-60	33.00	22-7-60	29.37	+5.62
Hind. Motor ..	15.62	14.25	12-1-60	23.75	22-7-60	19.69	+4.07
Indian Cable ..	30.62	29.12	12-3-60	37.56	25-8-60	32.12	+1.50
Rohtas Industries ..	25.25	20.62	6-12-60	41.87†	5-8-60	21.12	—4.13
Orient Paper ..	38.50	35.00	6-1-60	48.85	29-8-60	41.55	+3.05
Shree Gopal ..	22.25	22.25	9-1-60	30.75	27-5-60	26.12	+3.87

* Rate as on 9-12-60. † *Cum-right.*

TABLE II

Variable Dividend Industrial Securities—All-India, 1960

(All-India base: 1952-53=100)

Group	Week ended 28-11-59	Lowest touched during		Highest touched during		Week ended 19-11-60	Net rise (+) or loss (—)
		No.	Week ended	No.	Week ended		
Tea plantations ..	164.6	153.7	15-10-60	174.1	4-6-60	157.4	— 7.2
Coal	107.9	104.8	26-12-59	125.0	14-5-60	113.5	+ 5.6
Sugar	184.7	178.0	20-2-60	196.6	11-6-60	192.4	+ 7.7
Cotton textiles	132.6	131.6	5-12-59	163.6	23-7-60	147.5	+14.9
Jute textiles	97.6	85.1	19-11-60	99.2	6-2-60	85.1	—12.5
Iron and steel	157.4	147.2	30-1-60	170.8	21-5-60	154.5	— 2.9
Cement	134.0	131.6	2-1-60	168.9	2-7-60	142.8	+ 8.8
Paper	218.5	204.6	6-2-60	237.3	28-5-60	218.6	+ 0.1
Electricity generation and supply	88.2	81.0	17-9-60	88.0	2-1-60	82.7	+ 0.5
Shipping and other transport	122.6	103.6	22-10-60	122.0	26-12-59	105.0	—17.6
Calcutta Regional ..	148.7	147.5	5-12-59	165.9	30-7-60	155.7	+ 7.0

Source: *Reserve Bank's Weekly Index.*

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GOLD AND SILVER TOUCH NEW HIGH LEVELS

Pace Of Rise In Prices May Slow Down

BOMBAY, *17th December*

REVIEWING the trend of the bullion market in our last *Annual*, we had stated that it would be surprising if 1960 failed to establish new high levels in both gold and silver. This forecast has proved correct. Ready gold skied up to as high as Rs. 138.69 per tola and silver to Rs. 231.25 per bar of 100 tolas both on 5th May 1960, as compared with the peaks of Rs. 125.68 (3rd May 1959) and Rs. 212.50 (9th November), respectively. Although there has been some decline since then, the currently ruling prices are markedly higher than those at this time last year—gold at about Rs. 134.00 (Rs. 115 per 10 grams), as against Rs. 125.22, and silver at Rs. 226.40 (Rs. 194.70 per kilogram), as against Rs. 209.12. The net gains in prices during 1960 are thus Rs. 8.78 (as against Rs. 10.44 in 1959 and Rs. 5.25 in 1958) in gold and Rs. 17.28 (Rs. 16.06 and Rs. 5.50, respectively) in silver. Forward (January 1961 settlement) rates are higher still at Rs. 135.00 (Rs. 115.30 per 10 grams) and Rs. 228.40 (Rs. 196.40 per kilogram).

Practically throughout the year, the bullion market was in the grip of bull operators who availed themselves of every opportunity to manipulate prices, sometimes even undeterred by stiff margin regulations and official warnings. The speculators derived bullish strength basically from the fact that the demand for the precious metals was in excess of available supplies. The determined efforts made by the Government of India to put down smuggling provided extra grist to their mills. The shortage of supplies in the face of increase in demand, due to a marked abatement in the inflow of contraband metals, following stricter vigilance exercised by the Customs, was rather acute this year. Gold weighing 52,220 tolas valued at over Rs. 68.53 lakhs was seized from smugglers during the three months ended October 1960, alone. Consequent on the seizure of such large parcels of gold and the continued acquisition of the entire production of Mysore gold by the Union Government, the floating stocks of the metal in Bombay City were around 35,000-40,000 tolas during the major part of the year, more or less same as in 1959. In silver, there was virtually no inflow of Tibetan coins, as a result of Chinese impediments. The actual stocks in the City averaged about 600-700 bars, as against 1,500-1,600 bars last year. The buoyancy of commodity markets also fanned the bullish fervour in bullion.

F.M.C. Control and Metric System

Before the customary review of the variations in bullion prices, a reference may be made to two outstanding developments of the year, namely, application of the Forward Markets (Regulation) Act 1952 to the bullion markets and the introduction of metric system in bullion trade. With effect from 26th October, Sections 15 and 18(3) of the Forward Markets Regulation Act have been extended to cover trading in transferable and non-transferable contracts in gold and silver in the area within the limits of Greater Bombay. Simultaneously, recognition has been granted under Section 6 to the Bombay Bullion Association Ltd. to conduct forward trading in the two metals for three years. Prior to this, it will be recalled, the powers of control and supervision over the bullion market vested in the Government of Maharashtra. The metric system of weights and measures was enforced since 29th September. Under this system, the unit of trading in gold is fixed at one kilogram (86 tolas), the market quotation being for 10 grams (0.86 tolas). In silver, the unit of trading is 10 kilograms (approximately 860 tolas) the market quotation being for one kilogram (86 tolas).

The Union Finance Minister, Mr. Morarji Desai, informed the Rajya Sabha on 21st December that the following quantities of gold were seized as smuggled by the Customs authorities during the years 1957, 1958, 1959 and 1960 (upto 31st October 1960):

Year	*Approximate quantity*	*Approximate value*
	Tolas	Rs.
1957	2,03,600	2,07,60,000
1958	1,18,400	1,22,70,000
1959	45,450	50,34,000
1960 (upto 31st October 1960)	82,100	1,06,50,000

These figures, Mr. Desai said, did not support the presumption that the smuggling of gold had recently increased. According to him, a few foreign sailing vessels had been found smuggling gold into the country.

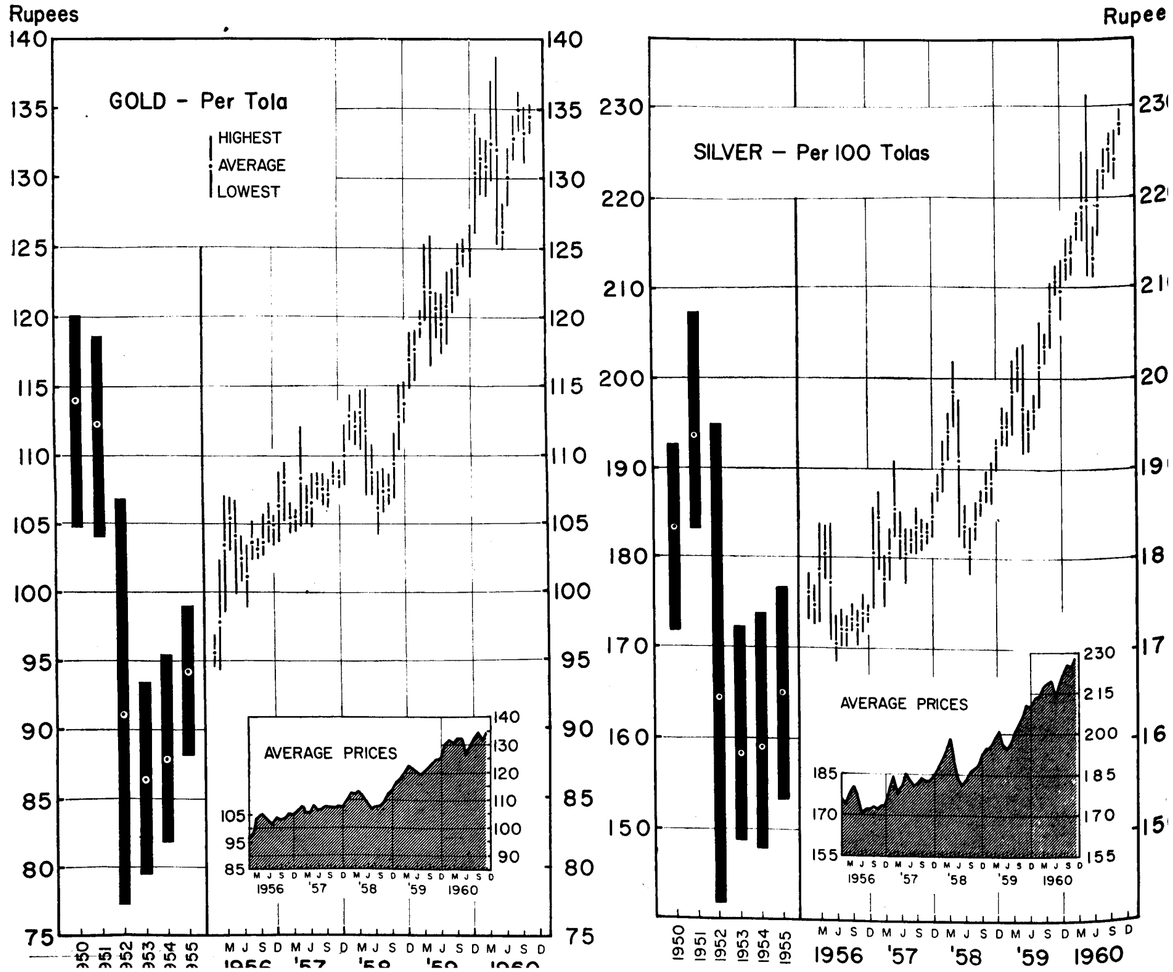
Gold

The easy trend depicted by gold towards the close of 1959 abated when the new year commenced. In fact, the metal was ruling distinctly firm. This trend persisted till 3rd March. The chief factor that bolstered up the sentiment was the sharp rise in demand, partly seasonal and partly speculative. Buoyancy of commodity markets and absence of any measures affecting bullion in the Central Government budget for 1960-61 also imparted strength. Another bullish factor was the report that the Dalai Lama's treasures which were offered in the market were not as large as had been anticipated earlier. Consequently, gold staged an impressive rally, ready gold from Rs. 125.7 on 31st December 1959 to as high as Rs. 132.75 on 3rd March 1960 and forward from Rs. 126.12 (January settlement) to Rs. 132.44 (March settlement). At higher levels, profit-taking set in. This, together with fears of the Reserve Bank extending the credit control measures announced on 11th March for share markets to include bullion as well, brought about a fall in gold prices, ready gradually declining to Rs. 128.69 on 17th March and forward (April settlement) to Rs. 128.12.

Gold started rising again after 18th March and touched the all-time peak of Rs. 138.69 on 5th May, which was the rate commanded by forward (May settlement) also. The upward trend followed the strong grip of bulls who, assisted by the absence of any margins against them, manipulated both prices and carryover charges. Even the official measures to check speculation failed to have any significant effect. The Bullion Association had to suspend forward trading for a day on 4th May and impose more stringent margins on bulls. These measures and the decline in demand led to bull liquidation and prices drifted lower, ready gold touching Rs. 125.22 (lowest level for the year) on 6th June and forward (June settlement) Rs. 125 on 1st June.

After moving narrowly for three weeks, gold started rising again from 25th June, thanks to a fall in arrivals and reported infiltration of Chinese troops into Nepal. Ready went into

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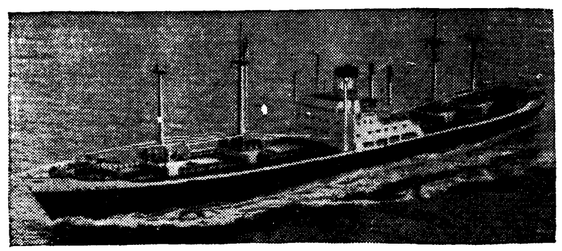
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a premium over forward, in place of the earlier discount; the actual premium was as high as Re. 1.66 on 22nd June, when the quotations stood at Rs. 132 and Rs. 130.34 for spot and forward, respectively. The upward trend gathered fresh momentum thereafter, despite heavy special margins, thanks to the growing scarcity of floating stocks, continued firmness of commodity markets, reports regarding seizure of large stocks of contraband gold at Calcutta, hopes of enlarged demand from Gujarat side following the State Government's decision to exempt sales of bullion as well as articles made of gold and silver (of fineness not less than 75 per cent.) from the retail sales tax, and relaxation of margin regulations in the first week of September. As on 16th September, ready gold was standing at one time at Rs. 136.34 and forward (October settlement) at Rs. 136.62.

The subsequent three weeks witnessed a reaction in gold prices, due to selling presure induced by larger arrivals against diminishing offtake, intensification of credit controls by the Reserve Bank, confiscation of about 38,000 tolas of gold by the Customs authorities from the American cargo ship *Ruth Everett* at Calcutta and of about 17,000 tolas from the Italian liner *Asia* in Bombay, and expectations of resurgence in smuggling activity on large scale, in view of improved political relations with Pakistan. Ready gold declined to Rs. 131 per tola (Rs. 112.40 per 10 grams) and forward (November settlement) to Rs. 132.21 per tola (Rs. 113.70) on 7th October. A quiet trend was in evidence in the next two weeks. Business put through was limited, with values moving narrowly.

The last week of October witnessed a rally in gold. This was due to the gold rush in London—where the world price for gold advanced from $35 to $41 per fine ounce on rumours of dollar devaluation. Ready and forward (November settlement) gold were both quoted on 1st November at Rs. 134.88 per tola (Rs. 116 per 10 grams). During the subsequent two weeks, gold ruled easy, due to heavy contango charges, stale liquidation by bulls, weakness of raw cotton and absence of any marked rise in offtake. On 15th November, ready gold was done at Rs. 133 (Rs.114.30 per 10 grams) and forward (December settlement) at Rs. 134.20 (Rs. 115.40). After recovering to Rs. 134.88 (Rs. 116) on 24th November owing to limited fresh offerings and expectations of enlarged demand, gold has been ruling easy since then, as a result of higher carryover charges, unloading by a few operators and reports of heavy arrivals. Today, that is, on 17th December, ready gold is quoted at Rs. 133.72 per tola (Rs. 115 per 10 grams) and forward (January settlement) at Rs. 134.10 (Rs. 115.30).

Silver

The lowest level of Rs. 210.75 per bar of 100 tolas touched by ready silver on 2nd January 1960 was below the previous year's peak of Rs. 212.50 (9th November 1959) by just Re. 1.75. This level was never reached again at any time during the whole of 1960. In fact, the average price itself was close to the highest level for the year, namely, Rs. 231.25 touched on 5th May. This clearly brings out the fact that, almost throughout the year, silver was standing at high levels.

Silver started moving up from the very beginning of the year, and the bullish phase lasted till 11th March when ready was quoted at Rs. 218.25 and forward (March settlement) at Rs. 218.12. The firmness was engendered by good demand and shortage of supplies. The floating stocks of silver in the local market had gone down from 1,600 bars towards the close of 1959 to 1,200 bars in the middle of February. Neither the increase in carry-forward charges nor the modifications in the Bullion Association's by-lays, imposing heavy margins on bulls and emergency powers, nor the warning against excessive speculation in trade by the President of the Association had any effect. For operators feared that the floating stocks of silver would decline markedly in the subsequent months, thanks to large agricultural crops and continued monetary inflation.

During the period 12th March to 7th April, silver experienced liquidation by bulls who feared that the Reserve Bank might extend the credit curbs to commodity markets and bullion as well. Ready silver eased to Rs. 215.87 and forward (April settlement) to Rs. 215.81. Thereafter, prices forged ahead, notwithstanding imposition of stiff margin regulations. The buying spree was fanned by inflation psychology and deadlock in Sino-Indian border talks. The bulls continued to hold tight to their position, while bears had to cover their sales at advancing prices. The floating stocks had dwindled to 600 bars. The suspension of forward trading on 4th May, imposition of heavier margins and extension of settlement period by five days were of no avail. On 5th May, ready silver was at the dizzy height of Rs. 231.25 at which level it commanded a premium of as much as Rs. 8.75 over the forward (May settlement).

In view of the unprecedented rise in prices and with a view to restraining the bulls from squeezing the bears unduly, the Bullion Association imposed, with effect from 9th May, heavy *ex-parte* margins on the total long position of bulls in the May settlement. Enforcement of stricter margins, coupled with reports of large contraband arrivals, led to bull liquidation and nervous selling by spot houses. Values, as a result, slumped. On 3rd June, ready silver stood at Rs. 221.12, a drop of Rs. 20.13 in less than a month, and forward (June settlement) at Rs. 211.50. Thus, not only the premium commanded by the ready over the forward disappeared but it yielded place to a discount.

After 4th June, silver again staged a recovery which persisted till 23rd September. The recovery was aided by failure of disarmament talks at Geneva, reports of Chinese incursion into Nepalese territory, renewed reports of Chinese build-up in India's northern borders, news of formation of a bull syndicate at Calcutta, exemption of silver and silver articles from payment of sales tax in Gujarat, and relaxation of margin rules in respect of November settlement. All these factors inspired sustained bull support, replacement buying and short-covering. Consequently, ready silver moved up to touch Rs. 227 and forward (October) Rs. 227.81 on 23rd September.

Silver suffered a setback in the ensuing two weeks, ready receding to Rs. 221.05 (Rs. 190.10 per kilogram) and forward to Rs. 223.37 (Rs. 192.10) on 8th October. This was due to liquidation by tired bulls, new measures of credit restraints announced by the Reserve Bank, and larger arrivals. The floating stocks had increased from 500 bars to 600 bars. From 10th October onwards, however, silver, once again, depicted an upward trend. The firmness was engendered by slowing down of the pace of arrivals, continuously rising tendency of commodity prices and fears that the existing stocks (about 700 bars) would not be sufficient to meet the demand in the 1960-61 busy season. There was also speculative buying from Calcutta and Delhi. The upward trend persisted till 9th November, when ready silver stood at Rs. 228.90 per 100 tolas (Rs. 196.85 per kilogram) and forward (December settlement) at Rs. 230.80 (Rs. 198.30).

After moving indecisively for seventeen days, silver firmed up from 26th November, following continued low level of arrivals and hopes of better seasonal demand. Ready silver touched Rs. 228.60 per 100 tolas (Rs. 196.65 per kilogram) and forward (December settlement) Rs. 229 (Rs. 196.90) on 2nd December. Since then, silver has developed a sagging tendency, due to lack of follow-up support, unloading by a few operators on reports of heavy arrivals and bearish advices from Calcutta. Ready silver was quoted today at Rs. 226.40 per 100 tolas (Rs. 194.70 per kilogram) and forward (January settlement) at Rs. 228.37 (Rs. 196.40).

How exactly the bullion market will behave in the new year is difficult to forecast, for there is always the possibility of the Government doing something with the people's hoard in bullion in order to find the resources for the third Plan and for fighting the Chinese menace. Subject to this qualification, this much can be said and that is that the trend will be distinctly bullish. For there is every prospect of the demand being kept up, and the supply being diminished further. The demand will be high due partly to larger agricultural crops—the total output of foodgrains in 1960-61 is estimated at 75·0 million tons, as against 71.8 million tons in 1959-60, cotton at 5.0 million bales, as against 3.8 million bales and oilseeds at 6.8 million tons, as against 6.4 millions tons—and partly to considerations of keeping a part of one's saving in the form of bullion as a hedge against inflation which promises to continue. The pace of rise in prices, however, may be a little less strident than in 1960, as the present high level of prices itself is bound to have a restraining influence on those who buy gold and silver for such social purposes as marriages and presentation on festival days. The demand for hoarding is also tending to go down, because more and more people are beginning to realise the distinct advantages of investing their savings in equities. The Government, too, is exercising a stricter control over speculation.

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After Piercing Ceilings, Cotton Prices Look Down

World Trend, Too, Not Bullish

BOMBAY, 19*th December*

MARKETWISE, the calendar year 1960, which consists of the last eight months of the 1959-60 cotton year and the first four months of the current (1960-61) season, proved to be a memorable one in the history of raw cotton. The incredibly low crop in the 1959-60 season and the high level of mill demand resulted in an unprecedented spurt in prices and a virtual scramble for all available lots of cotton. Prices not only rose to levels unheard of in previous seasons but pierced the ceilings in almost all cases and ruled well above them right from the beginning of the season. Short of physical controls, the Government tried its best to hold prices in check and ensure equitable distribution of cotton to mills but never before were prices more elusive of controls than in the 1959-60 season. Statutory ceiling prices were in effect only on paper. Practically no cotton was available even at the ceiling prices and those who needed it had to pay, and, indeed, did pay, prices far above the ceiling. The mills could do so, because there was no control on prices of cloth and yarn.

The position, however, underwent a perceptible change after 31st August 1960, when the 1960-61 cotton season began. The Government came down heavily on the cotton trade and introduced controls of a stringent nature. With a view to preventing hoarding or cornering of cotton by mills having more resources, the Government tightened up the provisions of the quota system and held out the threat of requisitioning, if need be. This had a salutary effect on distribution. But, in the process, free trading was stifled and the cotton trade found itself in a strait jacket from which it can hardly get out, unless production goes up very substantially not only in the current season but also in the next two seasons. The hands of mills, too, were tied by Government's compulsion on them to reduce prices of cloth and yarn.

Although it was clear right from the beginning of the year that the crop would not, in any case, be equal to that of the previous season, trading in the futures market started on a weak note. This was due mainly to the influence of the heavy margin imposed on the Jarilla March 1960 contract at the level of Rs. 770 and the constant fear of Government intervention in the futures market. The subdued trend of the spot market also made bulls a little nervous. In fact, activity in the spot market slowed down, as most mills had completed purchases against their initial quota issued in December and the consequent limited scope for fresh buying. The prospect for large imports of foreign capital was also a contributory factor. The Government had made no secret of the fact that liberal imports would be permitted. It had announced an advance quota for 140.000 bales of foreign cotton on 31st August 1959 and followed it up with further quotas in November (for 280.000 bales). It also signed an agreement with the U.S. under P.L. 480 for import of 300.000 bales of cotton of which 180.000 bales were to be in the staple range 13/16"-1". No one, however, doubted the temporary character of the easiness of the market in January. This was borne out by the spurt in prices in February. The Jarilla March 1960 contract rose to touch the ceiling level (for the non-delivery period) of Rs. 790 on 17th February from which it never looked back. Official business above this level was not possible under the by-laws of the E.I.C.A. But trading continued to be done in private at a premium of up to Rs. 25 above this level.

I.C.C. Jarilla August 1960, the last contract of the 1959-60 season, started its career on 15th February. It opened at Rs. 743. Rs. 25 below the March contract. The supply position of cotton being what it was, operators expected that the contract's career would not be different from that of its predecessor, but with the possible difference that it might touch the ceiling level long before the delivery month, an expectation which proved to be only too true.

Acute Scarcity

In the spot market also, after a temporary recession in January, prices firmed up so much so that virtually no Indian cotton was available below the ceiling prices fixed for each variety. Consequently, there was large-scale trading in cotton under spurious labels which, in spite of quality controls, could not be checked.

March witnessed a further downward revision in crop estimate to 3.85 million bales from 4.25 million bales in January. It was evident that mills would be forced to restrict their consumption of Indian cotton to not more than 85 per cent. of their consumption in the previous season and that stocks at the end of the season could not but be the lowest for many seasons. Reflecting this tight statistical position, the I.C.C. March contract reached the statutory ceiling of Rs. 820 on the very first day of March 1960, when the delivery period started, and went off the board at that level. Tenders against the contract aggregated only 4,450 bales, comprising 3,650 bales of Laxmi A, 500 bales of Punjab American 216F and 300 bales of Cambodia.

The I.C.C. Jarilla August, however, tended to recede, thanks to the easiness of the spot market where due to a combination of factors, especially the absence of unutilised quotas with mills, the credit curbs introduced by the Reserve Bank and the prospect of a much larger inflow of foreign cotton, ready prices found lower levels. Another factor which contributed to the decline of spot prices was the comparatively easy supply position of longer staple Indian cotton. The signing of a fresh Indo-Pakistan trade agreement, involving, among others, raw cotton, pointed to the possibility of more Pakistan cotton being imported. The Textile Commissioner's circular to mills, asking them to apply for import licences before the end of March, also turned mill attention to foreign growths. It was pointed out by the T.C. that, out of an import quota of 825,000 bales allotted till then, import licences covering only 600,000 bales were applied for. Nevertheless, Indian cotton prices at the end of March were very much above those prevailing at the end of 1959. The following were the ruling prices at the end of March, the figures in brackets being the quotations at the end of December 1959. P/American 320F 27/32 Rs. 1,040 (Rs. 980), Buri 0394 Rs. 1.040 (Rs. 1,020), Vijay 13/16" Rs. 1,080 (Rs. 1,040), Kalyan 25/32" Rs. 960 (Rs. 890), Laxmi Rs. 1.060 (Rs. 1 000). From a high of Rs. 777 in the first week of March, the August contract declined to Rs. 763.75 at the close of the month. It, however, firmed up in April, influenced by the strength of the spot market where pressure on available supplies continued. And prices remained firm, in spite of limited offtake, which, in turn, was due to the exhaustion of quota rather than absence of demand. With crop movement having reached its tag-end, there was no scope for selection of suitable grades. Very little cotton, especially short staples of good quality and grades, was available at prices below Rs. 1,000 per candy. The non-availability of cotton was clearly reflected in the mill consumption of Indian cotton. Mill utilisation, which was running at the average monthly rate of 390.000 bales during the first six months of the season, namely, September 1959 to February 1960, declined to 355.300 bales in the month of March. The supply of foreign cotton was augmented in April when a further quota for 280.000 bales, including 10.000 bales of Pakistan cotton and 120.000 bales of U.S. cotton 1" and below under P.L. 480, was announced. Consequently, demand for foreign cotton was quite active during the month and all varieties of foreign cotton, particularly U.S. and Sudan cotton, evoked attention throughout April and May. By the end of June, practically all mills had exhausted their allocations.

Regulatory Measures

The Government announced in mid-May the following measures to regulate distribution of cotton which were to come into force from 1st August 1960.

(1) Every person desiring to sell cotton to a manufacturer was required to apply to the T.C. for nominating a manufacturer as a purchaser of cotton proposed to be sold.

(2) Every person applying for nomination was required to sell the cotton only to the manufacturer nominated by the T.C. and at the maximum price permissible under the ceiling price determined by the Survey Committee appointed by the T.C.

This order, which, in effect, left little freedom for the trader to pick and choose the mill to which he could sell his cotton, provoked strong protests from traders and quite a few cotton markets in the country remained closed for a few days.

The order, however, had a distinctly bullish effect on the futures market. With the expected fast pace of liquidation of stocks in June and July in order to obviate the necessity of having to sell cotton to mills nominated by the Government at the ceiling prices, traders had no doubt that very little of tenderable cotton would be available in August. Consequently, the Jarilla August contract came under renewed buying pressure and firmed up from Rs. 773 at the beginning of May to Rs. 790, the effective ceiling during the non-delivery period, towards the end of the month.

Spot prices also showed sustained firmness. Prices of almost all varieties were well above the ceiling, the premium ranging from Rs. 35 to Rs. 145 per candy. Thus the market price of P.-American 320F at the end of May was Rs. 1,040, as against the ceiling price of Rs. 950 and the end of December 1959 price of Rs. 980. Buri 0394 Fine 1" was priced at Rs. 1,050, as against the ceiling price of Rs. 940 and the end-December price of Rs. 1,020. Kalyan Fine 25/32" fetched Rs. 975, Rs. 105 above the ceiling and Rs. 85 higher than the end-December price of Rs. 890. Vijay Fine 27/32" was quoted Rs. 130 above the ceiling price at Rs. 1,100. Jaydhar 27/32" was quoted at Rs. 1,050, as against the ceiling price of Rs. 975.

In June, there was hectic activity in the spot market. With the introduction of distribution control to take effect from 1st August 1960 and the release of the final instalment of Indian cotton quota to mills, the eagerness of the trade to liquidate its stocks was outweighed by the keenness of the mills to buy their requirements as long as they had the freedom to pick and choose their raw material. There was an unprecedented scramble for all the popular varieties and prices touched the highest levels ever reached in the history of cotton in India. Never before had there been a complete disregard of the whole Cotton Control Order as in June. The prevailing market prices at the end of June (as compared with those at the end of March given in brackets) were: P.-American 320F 27/32" Rs. 1,075 (Rs. 1.040), Buri 0394 1" Rs. 1,100 (Rs. 1,040), Vijay Rs. 1,100 (Rs. 900), Kalyan 25/32" Rs. 1,000 (Rs. 990), Laxmi 13/16" Rs. 1,110 (Rs. 1,060). It may be noted that all these prices were well above their respective ceiling.

Glaring Disparity

With the restrictions imposed on price movements in futures, the disparity between the futures and spot prices became very glaring. The August contract commanded an unofficial premium upto Rs. 30 per candy over the effective ceiling of Rs. 790, thus bringing the actual price to Rs. 820, the statutory ceiling one month before maturity. As nothing spectacular was expected of the August contract and it was expected to end its career in the same way as the March contract, traders began to think of trading in the new crop contract. The Government's cotton policy for the 1960-61 season was, therefore, more eagerly awaited than before.

Meanwhile, new crop had a promising start. Unlike in the past year, the monsoon had started at the exact time and extended over the cotton-growing areas in a most satisfactory manner. In the Punjab, new crop sowings were completed by the end of May and weather was favourable in June. In Oomras tract, Gujarat and Saurashtra, timely rains enabled farmers to complete sowings well within time. By the end of June, sowings were over and germination had started satisfactorily everywhere.

No business could be done officially in the futures section as long as the hedge contract remained at the effective ceiling level of Rs. 790. The futures market was therefore virtually closed in June and July. Spot section continued to show sustained firmness during most part of July although, towards the end of the month, some last-minute attempts by stockists to liquidate their holdings before 1st August resulted in a decline in ready prices which, even after the fall, were still above the ceiling prices. Demand for foreign cotton continued to be restricted in July, due to lack of unutilised import allocations. Only moderate business was done and that too by exporting mills having retention quotas issued under the export promotion scheme. The Government announced on 29th July, much to the disappointment of the trade, that, in view of the imperative need to check the rise in price of cotton, it had decided to keep the ceiling prices for cotton during the 1960-61 season unchanged from those of the previous season.

In August, futures trading was resumed. As was expected, no sooner had the delivery period commenced on the 1st inst., than the August Contract hit the ceiling of Rs. 820 and continued to remain at that level. In private dealings, however, the contract commanded a premium above even the statutory ceiling. The contract expired on the 25th inst., at Rs. 820. Total tenders against it amounted to a mere 250 bales, the lowest on record. In the spot section, activity was confined to foreign cotton, especially East African AR. Mwanza.

Cotton Policy

The Government's cotton policy for the 1960-61 season was announced in August. Apart from keeping the floor and ceiling prices unchanged, the new policy required each and every lot to be surveyed by sworn surveyors of the East India Cotton Association or a regional committee set up on its behalf. Every lot had to be accompanied by a survey certificate stipulating the maximum price permissible under the ceiling price schedule which was binding on buyers and sellers at each stage. Mills' freedom was restricted, as in the 1959-60 season, to quotas issued to them from time to time.

The new cotton season started on 1st September with no futures contract in operation. The E.I.C.A. was, however, busy, devising a new hedge contract which would have a broader base and be even more bearish in character to enable it to get Government's approval. The salient features of the new hedge contract submitted by the E.I.C.A. and approved by the Forward Markets Commission were: (1) The basis of the new contract was maintained as Fine M.G. Moglai Jarilla 25/32", (2) trading unit was made 3 quintals (300 kilograms), (3) floor and ceiling prices were Rs. 417 and Rs. 693, respectively, (4) delivery months were April and August, (5) the trading ceiling within the ceiling during the non-delivery period was abolished.

Listless conditions prevailed in the spot market during September. By the end of August, trade stocks of the 1959-60 crop were very meagre and consisted mainly of undesirable qualities. Further, most of the mills had already completed purchases against quotas issued to them in 1959-60 and could not, therefore, buy more, in the absence of fresh allocations. Demand for foreign varieties centred round U.S. P.L. 480 cotton.

As regards the 1960-61 crop, barring some business in very early crops, trading in new crop was at a standstill. Traders were not inclined to commit themselves at the ceiling prices while mills were reluctant to make purchases.

New crop made satisfactory progress. Weather in September was ideal for the growing crop all over the country. Given normal crop development from September onwards a good crop of 5 million bales was regarded as a distinct possibility. October, too, passed without any major unfavourable developments.

New Crop Trading

The favourable crop outlook was reflected in trading in new crop futures which commenced on 18th October. The new contract Jarilla April 1961, opened at the comparatively low level of Rs. 567.25 (per three quintals or 300 kilograms). It, however, firmed up towards the end of the month to touch Rs. 589, thanks to the brisk demand for new crop in the ready section following the issue of the first instalment of the 1960-61 Indian cotton quota. Practically all mills were in the market for early new crop deliveries and offerings, naturally, were far too small to satisfy the demand. Prices asked for and paid by mills were the maximum established in survey. Some business was reported to have been done at prices even above the ceiling. U.S. cotton continued to attract good demand from spinners. By the end of October, most mills had covered their allocations for U.S. cotton stapling 1-1/16" and above as well as 1" and below. Some mills even wanted cancellation of their unutilised allotments.

November, too, passed off, without any adverse developments about crop progress and it was expected that the crop would come up to earlier expectations. This, coupled with Government's efforts to secure a substantial cut in cloth prices and the fear of requisitioning of cotton, acted as a constant check on prices. The Jarilla April 1961 contract, which was quoting round Rs. 600 in the first week of November, declined to Rs. 582.75 towards the close of the month. The fast arrival of new crop and the Textile Commissioner's offer to requisition cotton for mills against their quotas served to hold ready prices at and below the ceiling prices.

The table below gives the last available spot quotation—in rupees per candy of 784 lbs.—as compared with the peak levels recorded in June and those prevailing at the end of 1959 and the beginning of the 1959-60 season (that is, September 1959):

Spot Cotton Prices

(1959-60)

(In rupees per candy of 784 lbs.)

	Latest (19-12-60)	End of June (1960)	End of March (1960)	End of Dec. (1959)	End of Sept. (1959)	Ceiling
P/American 320F Fine 27/32"	950	1,075	1,040	980	935	950
Buri 0394 " 7/8"	940	1,100	1,040	1,120	940	940
197-3 " 13/16"	940	1,100	960	925	840	840
Vijay " 13/16"	945	1,100	1,080	1,040	N.A.	945
Kalyan " 25/32"	870	1,000	960	890	N.A.	870
Laxmi " 7/8"	1,045	1,110	1,060	1,000	N.A.	1,045

N.A.=Not available.

The announcement of the second instalment of Indian cotton quota and an export quota for 50,000 bales of Bengal *Deshi* imparted strength to both the futures and spot markets in December. The Jarilla April 1961, contract which was priced at Rs. 585 at the beginning of the month, is currently quoted at Rs. 605, which is roughly equivalent to Rs. 717 per candy of 784 lbs., as compared with the quotation of Rs. 750 (per candy of 784 lbs.) for the Jarilla March 1960 contract at this time of 1959.

Foreign Markets

The Karachi cotton futures market, after the sharp advance in December 1959, was subdued during January and February. Export demand was slow as Pakistan cotton outpriced itself in world markets. This was, however, only a passing phase. Futures prices flared up in March, as bulls, taking advantage of a flaw in the Karachi Cotton Association's by-laws, pushed the maturing N.T.R.G. March contract to Rs. 80 from Rs. 75 at the beginning of January, at which rate it went off the board. Tenders against the contract amounted to a record 37,350 bales. Trading in the July contract commenced on 22nd March.

After remaining quiet in April, the futures market again firmed up in May, thanks to the unexpected entry of China into the market. This country bought as much as 52 000 bales of cotton in one month. Export demand in May was restricted to sporadic sales to India and Japan. Trading in new crop futures commenced on 4th May. When Chinese demand dried up, the market again turned quiet in June. The July contract which ruled at Rs. 69-15 at the end of April receded to Rs. 67 9 at the end of June. Activity in *Deshi* cotton was restricted. Barring some interest from Japan, demand was generally small.

China's re-entry in the market and limited stocks resulted in a hardening of prices in July. Meanwhile, new crop made satisfactory progress in both Sind and the Punjab. Good rain in July and subsequent clear weather were most beneficial. If the weather were to continue to be favourable, a larger crop than last season's was expected. August was, as usual, a very uneventful month.

Barring the Government's announcement of its cotton policy for the 1960-61 season nothing worth recording happened in August. Export duties on American seed and *Deshi* cotton were kept unchanged at Rs. 75 and Rs. 40 per bale respectively, whereas the duty on Comilla cotton grown in E. Pakistan was reduced from Rs. 40 to Rs. 20 per bale. The Government also stated that the crop was sufficient to cover mill requirements and to leave enough for exports so that no restrictions would be imposed on exports during 1960-61.

The new season started on 1st September, with the smallest carry-over on record. End-August stocks with the trade were only 21,000 bales which were already committed either to mills or for export. Consequently, early arrivals of new crop fetched high prices. But, as they gathered momentum, premiums declined. Hongkong was in the market. Demand from other countries was slow. Reflecting the tight supply position, the N.T.R.G. January 1961 contract, trading in which had commenced in May, advanced from Rs. 67-10 at the close of July to Rs. 68-9 by the close of September. The March 1961 contract too rose from Rs. 66-12 to Rs. 68-6 during the same period.

Progress of new crop was very satisfactory. N.T. crop was good in grade, staple and fineness. Punjab crops were also in fine form. *Deshi* crop was equally good though not in quantity. The output was estimated at 1,870,000 bales of 400 lbs. each as at the end of October, as compared with 1,678,000 bales in 1959-60. This, along with total stocks of 30.000 bales, indicated a total supply of 1.9 million bales of which not more than 1.3 million bales were expected to be consumed by local mills. This would leave a surplus of 600,000 bales for export of which 150,000 bales would be *Deshi* and the balance other varieties.

Listless conditions prevailed in the futures market in October and November. Excepting a moderate volume of business with Hongkong, export demand was poor. Continental buyers and Japan showed little interest in Pakistan cotton. Export business in *Deshi* cotton was also negligible. But in view of the comparatively small *Deshi* crop and prospective substantial demand, *Deshi* prices tended to harden in December. This influenced the futures market also which edged higher, thanks to speculative buying. By the third week of December, N.T.R.G. January 1961 rose to Rs. 73-4 from Rs. 68-9 to the end of September and the March position to Rs. 72-10 from Rs. 68-6. A year ago, the January 1960 and March 1960 contracts were quoted at Rs. 72-9 and Rs. 71-2, respectively.

Alexandria

Reflecting the tight statistical position of cotton and good export demand from Russia, Poland, Czechoslovakia, India and the U.S., the Alexandria cotton futures market ruled firm during the first half of 1960. Even the progressive reduction in the discount rate for payment in transferable currencies for the 1959-60 crop (shipment till 31st August 1960) from 18 per cent. in December 1959 to 11¼ per cent. by end of June 1960 did not discourage foreign demand. Total export sales from the beginning of the season till 15th June aggregated 1.1 million bales (of 730 lbs. each), as against 975,000 bales in the same period of the previous season.

The discount rate for new crop (shipment from 1st September 1960) was announced initially as 7 per cent. but it was subsequently reduced to 6 per cent. and made subject to change weekly. Total exports during 1959-60 season amounted to 1.18 million bales, as compared with one million bales in the previous season.

Futures showed a sagging tendency since June. Lack of sufficient trade interest and excellent crop news exerted a downward pressure on prices. The Ministry of Agriculture published, on 8th October 1960, the first estimate of the 1960-61 crop which put the crop at 10,735,000 cantars (1 cantar=99.05 lbs.), as against 10.175.300 cantars in 1959-60. Although foreign demand tended to pick up, prices failed to rally, as they did in the first half of the year. Karnak January 1961 contract is currently quoting at 70.15 tallaris per lb., as compared with 75.85 at the end of June, and the Ashmouni December 1960 contract at 61.25 tallaris, as against 62.15 at the end of July.

New York

Trading in the New York cotton futures market was featureless throughout the first quarter of 1960. Price movements were narrow and turnover limited. Traders were awaiting Washington developments regarding the re-sale price of the C.C.C., the carry-over stocks and the 1960-61 export subsidy rate. Uncertainty about farmers' planting intentions under the 1960 choice programme was also an unsettling factor. The May 1960 contract declined from 33.26 cents at the end of December 1959 to 32.91 cents at the end of March. Towards the end of the quarter, the Department announced the minimum sale price for 1959 and prior crops of upland cotton in its stocks and for the 1960 crop. These prices, which were to be effective from 1st August 1960, were lower than those in effect in 1959.

The Department also made it known on 16th March that the export subsidy rate would be 6 cents per lb., as against 8 cents, with effect from 1st August 1960. The reduction in subsidy rate was not expected to make U.S. cotton dearer, as it was offset by a corresponding lowering of the domestic support price for the 1960 crop, so that the export price level for U.S. cotton would remain at about the same level in 1960-61 as it had been during the 1959-60 season.

Right from the beginning of the season, indications were that U.S. exports would touch a new peak during the 1959-60 season. Exports from 1st August 1959 till the end of March, for instance, amounted to 4.56 million bales of 500 lbs. each, as compared with 1.9 million bales in the same period of the previous season.

Conditions in the New York market in the second quarter of the year remained practically unchanged from those of the previous three months. Business was confined largely to routine hedging and trade buying. Fair weather and generally satisfactory crop reports had very little influence on the market, in view of the price support programme. Exports crossed the target of five million bales towards the end of April. Shipments rose further in May and June, reaching 6.5 million bales by the end of June.

Trading became active in July. Speculative buying was stimulated by the Democratic farm platform which called for 90 per cent. of parity price support for all agricultural commodities, including cotton. The October 1960 contract, which was quoted at 30.87 cents per lb. at the end of April, improved to 31.09 cents at the end of July.

The season ended on 31st July with a carryover of 7.4 million bales, as against 9.9 million bales on the corresponding date of the previous season. The first production estimate issued in August placed the crop at 14.47 million bales. Subsequent forecasts showed a fall and the latest one (issued in December) put the crop at 14.31 million bales. This indicated a supply of 21.87 million bales, as compared with 23.45 million bales in the previous season. Exports during the 1959-60 season touched a peak of 7.2 million bales, as against a mere 2.8 million bales in the previous twelve-month period. Consumption, too, was highest at 9 million bales, as compared with 8.7 million bales in 1958-59. Both consumption and exports are, however, expected to decline during the current season from their peaks, the former to 8.7 million bales and the latter to 5 million bales. But, in view of the reduced supply during the season, thanks to the small carry-over, futures prices have shown a hardening tendency from the beginning of the current (1960-61) season, although, as compared with the previous season, prices are on the low side. Thus, the March 1961 contract, which was quoted at 31.55 cents per lb. at the close of July are now (19th December 1960), priced at 32.40 cents, as compared with the quotation of 33.10 cents for the March 1960 contract in the third week of December 1959.

Ready prices, on the other hand, have shown a declining trend since the beginning of the current season, thanks to the lower rate of mill demand and the prospect of lower exports. The current price for spot middling is 32.25 cents, as against 33.10 cents at the beginning of August 1960. A year ago, it was standing at 33.20 cents.

AGRICULTURE

(*Concluded from page 200*)

mission has estimated that production of foodgrains will be higher at 75 million tons in 1960-61, which is still lower by 500.000 tons, as compared with the record crop in 1958-59. Against the revised target of 80.50 million tons for the final year of the second Plan, this anticipated output cannot be said to be in any way impressive. The trade estimates of the crop, however, place it at a lower level, about 74 million tons. In respect of paddy, in particular, a bumper crop is expected. But for some drought in parts of Andhra and Mysore and floods in some parts of the Punjab, Orissa and Madras, and the locust invasion of many parts in Gujarat, M.P., and Deccan, the production of foodgrains would have probably set up a fresh record in 1960-61, the final year of the second Plan.

In respect of commercial crops also generally sizable increases in production are reported. The output of cotton, according to current trade estimates, will go up from 3.84 million bales in 1959-60 to about 5 million bales in 1960-61. The oilseeds crop for the current season is expected to be about 6.44 million tons, as against 6.35 million tons in 1959-60. The production of groundnuts is expected to touch 4.5 million tons in shell (as against 4.29 million tons in 1959-60), castorseed 115.000 tons (108 000 tons), linseed 422.000 tons (425.000 tons), sesamum 400.000 tons (392.000 tons) and rape and mustard about one million tons (1.04 million tons). The production of sugarcane is expected to be higher than that of last year. The first official estimate of acreage under sugarcane puts the total area at 5.16 million acres, which compares favourably with 4.98 million acres in 1959-60. In contrast, the production of jute and mesta is reported to have somewhat declined owing to bad weather conditions in the major producing areas. The area under jute (according to the first official estimate) has gone down by 8.4 per cent. to 1.61 million acres and that of mesta by 4.5 per cent. to 489,000 acres.

Current Price Trends

Thanks mainly to the anticipated improvement in the current season's crop and partly to certain strong restraints exercised on speculators by the Forward Markets Commission and the Reserve Bank of India, the commodity prices have generally tended to look down, except those of raw jute. This trend has been aided further by the arrangements made for the import of foodgrains to the tune of 300.000-350 000 tons a month under the 17-million-ton P.L. 480 agreement signed in May last and large imports of foreign cotton to make good the shortfall in domestic production in the 1959-60 season. The following table shows the index number (base 1952-53=100) of the prices of major groups of agricultural commodities and a few selected individual commodities, from July 1960, that is, from the beginning of the current crop year, to the third week of November:

	July 1960	Sept. 1960	October 1960	Week ended Nov. 19 1960
Cereals	110.0	108.5	106.3	108.1
Pulses	96 0	94 7	94 5	93.9
Groundnuts	150 0	140 0	142 0	N.A.
All oilseeds	153 0	146.9	148 3	149.5
Raw cotton	112.0	112 0	114 0	N.A.
Raw jute	155.0	161 0	225.0	N.A.
All fibres	130.0	139.5	157.5	156.2

N.A.—Not available.

It will be seen from this table that prices of cereals have been steadily declining since July. Prices of pulses and oilseeds have also been somewhat lower. Fibre prices have, however, looked up, thanks mainly to the rally in raw jute prices. In fact, the prices of raw cotton has shown a perceptible tendency to seek lower levels from the peak levels reached earlier during the year and almost all staples are available within the ceilings, as against a premium of Rs. 150 to Rs. 200 a year ago. There is thus sufficient ground for hoping that, at least, till the end of the current crop season prices of foodgrains and commercial crops can be well held at the prevailing levels, if not brought down a little. The position beyond July 1961 will depend largely on the course of monsoon and weather in the 1961-62 season.

Oilseeds Continue to March Upward

Production Declines—Offtake Rises

BOMBAY, 15*th December*

1960 was one more eventful year for the oilseeds market, in that it witnessed new peak prices of major seeds. There was a decline in the production of oilseeds during 1959-60 as compared with the previous season, so that the pressure of increasing domestic demand for vegetable oils (for both edible purposes and use as industrial raw materials) on available supplies was greater in 1960 than in 1959. This factor, together with the misplaced official enthusiasm to promote exports, particularly of groundnut oil, not to speak of the ill-timed announcement of export quotas, boosted prices of oilseeds. There was also some indiscriminate speculation indulged in by a section of the trade which utterly disregarded all canons of healthy forward trading. The skying up of prices not only caused much hardship to domestic consumers but also adversely affected the competitive position of Indian oils in world markets. Neither the credit control measures of the Reserve Bank nor the move of the Forward Markets Commission to impose special margins and to fix ceiling prices in respect of forward contracts had any perceptible impact on the behaviour of trading in seeds and oils.

The production of oilseeds, as already stated, suffered a setback during 1959-60, despite an increase in the acreage sown to them. The total quantity of the five major oilseeds (groundnut, castorseed, linseed, sesamum, and rape and mustard) actually harvested was no more than 6.35 million tons, which compares unfavourably with 6.91 million tons produced in 1958-59. The decline was due mainly to unfavourable weather conditions in the principal producing centres. The following table shows the area and production of seeds in 1959-60, as compared with the previous year:

	Acreage ('000 acres)		Production (in '000 tons)	
	1959–60	1958–59	1959–60	1958–59
Groundnut ..	15,305	14,575	4,390	4,812
Castorseed ..	1,178	1,203	108	112
Sesamum	5,510	5,500	392	511
Rape and mustard	7,167	6,021	1,037	1,025
Linseed	3,921	3,965	425	447
Total ..	33,081	31,263	6,352	6,907

Exports

On the export front, there were some encouraging features. The total exports of vegetable oils through Bombay port were higher by 22,000 tons at 57,000 tons during January-November 1960, as compared with the corresponding period last year. The improvement was accounted for chiefly by castor oil, the shipments of which aggregated 47,000 tons, as against no more than 25,000 tons. Shipments of groundnut oil were also higher at 4,000 tons, as against 3,300 tons. Linseed oil exports, however, fell by over 1,100 tons to 5,500 tons, while those of sesame oil were negligible, being just seven tons, as against 266 tons. Shipments of H.P.S. groundnut kernels amounted to 12,650 tons, a rise of about 100 per cent. Overseas purchases of Indian sesame seed also went up from 250 tons to 500 tons. But exports of *kardi* and *niger* suffered a decline. It may be noted here that exports of castorseed, linseed as well as rape and mustard continued to be banned throughout the year.

The distinctly firm trend of oilseeds is indicated by the all-India index number for wholesale prices in respect of seeds and oils (base: 1952-53 =100). The index of seeds moved up from 141 in January 1960 to 153 in July and, after declining to 146 in August in sympathy with foodgrains, improved again to touch 150 in the week ended 3rd December 1960, as against 130 a year before representing a rise of more than 15 per cent. over the year. The index of edible oils stood at 153, as compared with 127 a year before, or an increase of over 20 per cent. The table in column one shows the month-by-month variations in wholesale price of oilseeds and edible oils in general and groundnuts and groundnut oil, in particular, during the past twelve months.

	Oilseeds	Edible oils	Groundnuts	Groundnut oil
1959				
December ..	132	129	122	113
1960				
January	141	136	131	118
February ..	139	136	139	125
March	141	136	141	126
April	141	139	144	130
May	140	137	139	127
June	148	141	146	129
July	153	150	150	137
August	146	148	140	138
September ..	149	151	140	138
October	148	154	142	144
November ..	150	153	N.A.	N.A.
Week ended 3rd December..	150	153	N.A.	N.A.

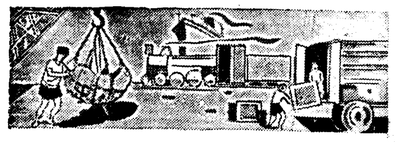
Groundnut

Against this general background, we will now review the trend of the Bombay oilseeds market during 1960. To take the groundnut section first. Groundnuts met with sustained bull support practically throughout the year, thanks to larger absorption by *vanaspati* manufacturers, crushers and other consumers in the wake of tight supply position following the smaller crop. The first four weeks of January witnessed a rally in prices, thanks to hopes of larger exports of groundnut oil, H.P.S. groundnut kernels and oilcakes. The rise was so sharp that the Forward Markets Commission directed the Oilseeds Exchange, towards the end of January, to levy a special margin of Rs. 106.25 per candy on February and May contracts, the margin being payable on the total long positions in excess of 1,500 candies even during the non-delivery period whenever the price of either of these contracts ruled above Rs. 212.50 per candy. This measure was soon followed by the imposition of a ceiling price of Rs. 225 for the February and May contracts. These measures failed to have any effect. In fact, values continued to rise. By about the middle of February, the Government of India announced its decision to allow exports of groundnut oilcake (expeller) on the basis of four tons for every ton of salad oil exported upto the end of December 1959. Within a week, an export quota of 10,000 tons of groundnut oil was released under the export incentive scheme linked to exports of expeller cake. February 1960 contract spurted from Rs. 191.75 by the middle of December 1959 to Rs. 217.25 early in February and went off the board at Rs. 216 at the end of that month. May contract, trading in which commenced on 2nd January at Rs. 195.25, rose steadily to Rs. 214.50 in the next four weeks but it stood lower at Rs. 209 towards the end of March. Nizam bold improved from Rs. 38.37 to Rs. 42.50; at one time it was higher still at Rs. 44.50. Oil ex-mill rallied from Rs. 20.87 to Rs. 22.37.

The upward trend in prices of groundnuts and oils was somewhat halted in the beginning of the second quarter, since buyers were reluctant to enter into fresh commitments at higher levels. Subsequently, however, the continued tight statistical position led to the revival of fresh buying. Arrivals of new crop were also small. May contract forged ahead from Rs. 209 to Rs. 219.50 by the end of April and expired at Rs. 215 a month later. August 1960 contract, which had receded from Rs. 212.50 on 5th May to Rs. 206, climbed up to touch a high of Rs. 220.25 at the end of June. Nizam bold rose from Rs. 42.50 to Rs. 46.50 and oil ex-mill from Rs. 22.37 to Rs. 24.37.

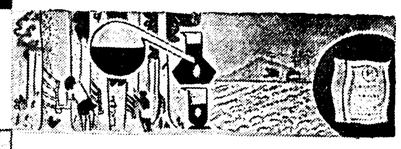
The firmness of groundnuts gathered considerable momentum during the third quarter, following fears of a fall in production during 1960-61 due to unfavourable rains in some producing tracts in the beginning of the monsoon season and drought in some other places. Crushers and *vanaspati* manufacturers were keen buyers. Reports of a crop shortfall in groundnut in West Africa also aided the bullish fervour. The repeat export quota for H.P.S. groundnuts too imparted some strength. August contract forged ahead from Rs. 219.50 in the beginning of July to touch the ceiling of Rs. 225 per candy on 18th July. Actually, the contract was unofficially quoted higher at Rs. 227. In view of higher prices, official trading in this contract came to a standstill and it was only after a month when prices had moved down to the level of ceiling that business was resumed. The contract expired at Rs. 225 toward the end of August. The Forward Markets Commission did not grant permission for the commencement of business in the new crop contract until 5th August. February 1961

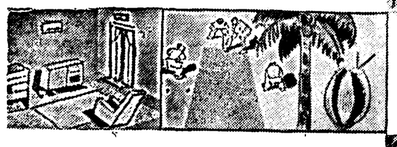
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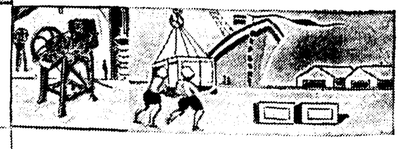
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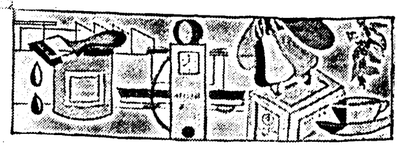
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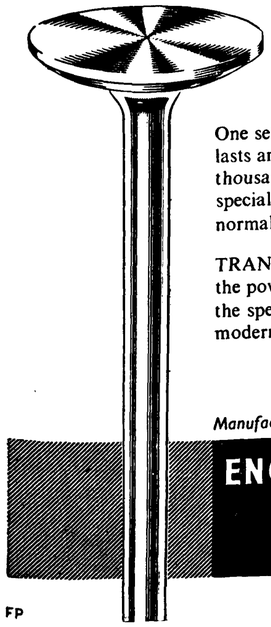


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EXPORT ENQUIRIES SOLICITED

contract advanced from Rs. 188.25 (Rs. 185.25 per 250 kilos) to Rs. 208.50 (Rs. 205.50 per 250 kilos) towards the close of September, after being higher at Rs. 213.25 (Rs. 210.25). Nizam bold hardened from Rs. 46.50 to Rs. 49.25 during the first three weeks of July but eased to Rs. 46.50 at the end of the third quarter.

Groundnuts continued to rule firm during the last quarter of the year mainly on account of smaller arrivals. The F.M.C. administered strict warnings against rigging up prices twice in the two months October and November. But the warnings were of no avail, thanks to the decision of the Government to invite tenders in respect of groundnut oil exports against copra and palm oil. The bulls received fresh stimulus, announcement of import policy for spices, betel nuts, and cloves linked to exports of groundnut oil and export quota for H.P.S. groundnuts. The February 1961 contract rallied from Rs. 208 (Rs. 205 per 250 lbs.) to Rs. 216.75 (Rs. 213.75) early in November after an initial decline to Rs. 205 (Rs. 202.50). The contract stood today at Rs. 216.62 (Rs. 213.62). Nizam bold improved from Rs. 46.41 (Rs. 45.75 per 50 kilos) in the beginning of October to Rs. 49.66 (Rs. 49) before closing at Rs. 43.66 (Rs. 43). Oil ex-mill improved from Rs. 26.12 (Rs. 20.62 per 10 kgs.) to Rs. 27.75 (Rs. 22.75), but declined subsequently to close at Rs. 24.13 (Rs. 19 per 10 kgs.).

Castor

Buoyant conditions were in evidence in the castorseed section as well. The buoyancy was engendered chiefly by revival of U.S. interest in Indian castor oil. The shortfall in Brazil's castor crop turned out to be a blessing in disguise for exporters of castor oil in India. This factor, together with some freight concession offered in January, led to a rise in values. May 1960 contract moved up from Rs. 174.12 to Rs. 187.75 on 15th February. Thereafter, under pressure of supplies, the sentiment turned rather subdued, the rate at the end of the first quarter standing at Rs. 173.37. Ready Madras rose from Rs. 33.37 to Rs. 33.69 over the quarter, after moving both ways between Rs. 32.12 (6th January) and Rs. 36.62 (15th February). Oil commercial improved from Rs. 18.09 to Rs. 19.37 by the middle of February and finished at Rs. 18.06.

Hectic buying and advance in prices characterised trading in the castorseed section during the second quarter. There were substantial enquiries for castor oil from the U.S., the U.K. and some Communist countries. Export prospects for castor oil improved perceptibly in the absence of any serious competition from Brazil in the American market. May 1960 contract rose from Rs. 173.37 to Rs. 176.25 in the first week of April and ran out at Rs. 167 on 30th May. September contract hardened from Rs. 177.62 (on 2nd May when business in it started) to Rs. 182.37 by the end of June. Ready Madras gained Rs. 2 to Rs. 35.62, oil commercial by 81 nP to Rs. 18.06 in the second quarter.

The firmness of castorseed abated somewhat during July-September. Fears of official intervention, absence of U.S. enquiries for castor oil for some time, enlarged arrivals from Gujarat and Bihar, and rumours of increasing pressure of Brazilian supplies led to a slight fall in values. September contract receded from Rs. 183.50 in the beginning of July to Rs. 168.62, at which rate it went off the board. May 1961 contract began at Rs. 174.37 (Rs. 171.57 per 250 kgs.) on 5th August, fell to Rs. 166.12 (Rs. 165.62), but recovered later to Rs. 182.75 (Rs. 180.25) before finishing the quarter at Rs. 175.87. Ready Madras eased from Rs. 35.62 to Rs. 33.75 and oil commercial from Rs. 19.09 to Rs. 17.81.

Castorseeds, however, staged a smart recovery in the final quarter of the year, in sympathy with groundnuts. The F.M.C. imposed a special margin on futures contract by the middle of November. As the move did not have any significant effect, more stringent margins were imposed recently. May 1961 contract, which had been quoted at Rs. 177.50 (Rs. 175 per 250 kgs.) in the beginning of October, was marked up to Rs. 184.37 (Rs. 181.87) by the middle of December. It stood at Rs. 175.37 (Rs. 172.87) today. Ready Madras rose from Rs. 33.87 (Rs. 33.37 per 50 kgs.) to Rs. 35.62 (Rs. 35.12). Oil commercial improved by about 50 nP over the final quarter to Rs 18.47 (Rs. 14.53 per 10 kgs.) after fluctuating between Rs. 18.73 (Rs. 14.75) and Rs. 17.58 (Rs. 13.87).

Linseed

In sympathy with groundnuts and castorseeds, linseed ruled steady during the major part of the year. Prices tended to move up notwithstanding the distinct setback to exports of linseed oil in view of domesports of linseed oil in view of domestic prices being well above world levels. For linseed oilcake evoked very good demand from some European countries, May 1960 contract rose from Rs. 24.81 in the middle of December 1959 to Rs. 35.12 on 10th February. After declining to Rs. 32.06 on 3rd March, it recovered to Rs. 33.75 by the middle of May. It terminated at Rs. 33.50. September contract began at Rs. 33.62 on 2nd May and increased to Rs. 34.87 towards the end of June. But it eased to Rs. 31.12 before finishing at Rs. 32.06. Trading in May 1961 contract commenced at Rs. 33.69 (Rs. 33.19 per 50 kgs.) on 5th August. Bold ready retreated from Rs. 34.50 to Rs. 30.87 in March. After fluctuating between Rs. 31.25 and Rs. 34.12, it finished today at Rs. 35.62 (Rs. 35.12 per 50 kgs.). Linseed oil fell from Rs. 16.81 to Rs. 15.50 on 18th March. It, however, recovered to Rs. 17.94 in June and further to Rs. 19.49 (Rs. 15.34 per 10 kgs.) today.

Cottonseed

The cottonseed section put on a distinctly cheerful appearance during the first half of the year. The bullish fervour was fanned by the sustained strength of raw cotton following the sharp decline in crop during the 1959-60 season. Since the beginning of July, however, cottonseed has been ruling quiet in view of better crop outlook in the current season. Cottonseed February 1960 contract rose from Rs. 148.10 to Rs. 158 at which rate it terminated. May contract advanced from Rs. 146.50 to Rs. 160.50 in April before closing at Rs. 153.50. September contract which commenced at Rs. 157 on 5th February spurted to Rs. 163.50 towards the close of June. But it lost ground subsequently and went off the board at Rs. 150. February 1961 contract hardened from Rs. 133.25 (Rs. 93.25 per 250 kgs.) on 26th July to Rs. 136.50 (Rs. 96.50) at the end of August. After easing to Rs. 127 (Rs. 87), it recovered to Rs. 133.25 (Rs. 93.25) today.

The following table indicates the trend of oilseed and oil prices during the year:

	15-12-1960	Highest	Lowest	15-12-1959
Groundnut :	Rs.	Rs.	Rs.	Rs.
February contract..	216.62	217.25	190.50	191.75
Boldready ..	43.66	49.66	38.25	38.37
Oil ex-mill	24.13	28.00	20.50	20.87
Castorseed :				
May contract ..	184.37	187.75	165.62	174.12
ReadyMadras ..	35.62	36.62	32.12	33.37
Oil commercial ..	18.47	19.37	17.37	18.09
Linseed :				
May contract ..	35.12	35.12	32.00	34.81
Boldready ..	35.62	35.62	30.87	34.50
Oil ready	19.49	19.49	15.50	16.81
Cottonseed :				
February contract..	133.00	164.00	120.25	148.00
Niger seed	35.50	40.00	33.25	28.37
Kardi seed	24.00	25.50	23.00	24.00

N.B.—All quotations for futures' contracts are given in terms of candy, except linseed, which is in cwt. A candy is equal to 560 lbs. except in the case of cottonseed, for which it is 784 lbs. Spot quotations of seeds are per cwt. and those for oil per quarter.

The upward trend of oilseeds and oil prices witnessed during 1960 is likely to persist in the new year also. It is true that private estimates of production of the five major oilseeds place the total output higher at 6.44 million tons for the 1960-61 season, as against 6.35 million tons in 1959-60 and 6.91 million tons in 1958-59. But the rise is negligible considering the pace of increase in demand for oilseeds and oils. It may be noted, in passing, that the revised second Plan target for oilseeds production to be achieved in 1960-61 is as much as 7.55 million tons. It is now clear that this target is not going to be achieved and that the shortfall will be no less than a million tons. In view of the continued wide gap between supplies and actual requirements, the firmness of oilseeds and oils may be expected to gather further momentum, unless, of course, the authorities interfere with the market mechanism through stringent measures of control and import of a sizable quantity of oils and fats.

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TEA REALISES SATISFACTORY PRICES

Exports, However, Shrink Further

CALCUTTA, 13th December

THE price levels prevailing on the Calcutta tea market for the 1960 season's crop have been most satisfactory and, at the time of writing, all districts in North India, with the exception of Darjeeling, have recorded higher average prices than in 1959 and this latter district's average price stands level with last year at the end of November. Although this increase in the price averages may fully or partially compensate for the shortfall in crop due to the drought at the early part of the season in parts of Assam, it is doubtful whether many Cachar gardens will fully succeed in making up for their loss in revenue.

The transportation of teas from the gardens to the port of Calcutta has been quite satisfactory with the exception of two weeks in May when there was a railway strike which, however, did not make itself felt upon the industry owing to the current shortage of tea ready for despatch. There was also some dislocation in river transportation in July, during the political disturbances in Assam and later due to the flooding of some of the ghats on the Brahmaputra. The arrival figure in the port of Calcutta now stands at 3,200,000 chests, as against 3,700 000 chests last year. The snipments during the period January to November were 19.1 million kg. behind last year and the exports of the 1960 season's crop to-date are 11.8 million kg. behind the previous year's figure.

Sales

The early sales of the 1959 crop held in January registered a decline for B.O.Ps, due to absence of Russian buying and, though other descriptions were quite well supported, they generally sold at easier rates. In the last sale held in January, however, buyers readily paid premium prices for C.T.C. descriptions with autumnal character and, in this sale, there was also some revival of Russian support.

The main feature of the sales held in February was the emphasis on quality and the decreasing demand for the stalky and thin liquoring grades. C.T.C. Assams were the strongest feature of these sales and Legg-cut teas with autumnal character were well supported. Fannings grades suitable for Egypt continued to be in strong demand, but teas of this description and exportable black dusts showed a considerable decline hereafter. The few really autumnal Darjeelings sold well, but, otherwise, there was little support for teas from this district. Throughout the remaining sales of the season, internal operators and the smaller buyers provided the maximum support to the market and exporters offered keen competition for the few teas with bright liquors and clean leaf appearance. Given below are Calcutta sale averages for the 1959-60 season, which closed at much higher price levels than the previous year:

(Per kg.)

	1959-60	1958-59
	Rs.	Rs.
Export	5.05	4.74
Internal leaf ..	3.97	3.42
Dust	4.07	4.34
Total ..	4.94	4.61

The new season opened with two Darjeeling supplementary sales, but demand was restricted and on the whole disappointing, with heavy withdrawals. The average price of teas sold in Sales 'A' and 'B' was only Rs. 7.19 per kg., as against Rs. 8.44 per kg. last season. The U.S.S.R. was by far the biggest supporter of these sales, but Turkey was completely out of the market and the Iranian buyers operated only to a very limited extent. Due to climatic conditions, which were conducive to a heavy first flush, quality was generally not of a high standard and inferior to the previous season. Owing to the drought conditions in other areas of Northern India, early arrivals were small and, in the two sales held in June, teas from all districts amounted to only 58,000 packages, as against 90,000 packages sold in June 1959. The actual quantity sold to-date, however, showed a shortfall of only 4,000 chests, as compared with the previous season, when withdrawals were very heavy, and the general trend of the market for this season's early offerings was quite satisfactory. The overall sale prices upto the end of June, however, was Rs. 5.71 per kg. as compared with Rs. 5.91 per kg. during 1959, and this was due to the lower price levels ruling for Darjeeling teas.

July was a difficult month for the trade and political trouble in Assam, together with the Government employees' strike lasting over a week, disturbed the smooth movement of tea and the arrivals in Calcutta were smaller than usual. Buyers were selective throughout the sales held during this month and quality teas were keenly competed for. The U.S.S.R. gave useful support and other exporters operated more freely. Turkey was an interested buyer from the end of the month and, during the sales of second flush teas, the price levels for Assam C.T.C. teas were quite satisfactory, though there was a considerable difference between the best and the poorest C.T.Cs which during the month of July was as much as Rs. 5 per kg.

By the end of August, however, the Assam average was 51 nP per kg. higher than last year. The increase in the shortfall in crop might have been expected to cause a very strong market during August, but this did not prove to be the case and, although a good general demand was maintained, a slight decline in price levels for plain teas indicated that buyers were not going to be influenced by this shortfall, as the crop increase in South India and Ceylon counterbalanced the shortfall in North-east India. Assam Zone I, which suffered least from the drought, recorded the biggest improvement in sale averages, mainly because the majority of the estates in this area had adopted C.T.C. manufacture.

The effects of the drought on the offerings in Calcutta from Assam were illustrated by the fact that, while teas sold from Zone I showed a decline of only 7 per cent., teas from Zones II and III were 54 per cent. and 40 per cent., respectively, down on 1959. In the case of Cachar, offerings were nearly 44 per cent. down on the previous year. Darjeeling was the only district which escaped the effects of this unprecedented lack of rainfall in North-east India.

During September, buyers followed quality closely and the closing of the "price concertina" became more accentuated. With the decline in quality, prices for the best C.T.Cs depreciated by 50 nP to Re. 1 per kg., but the poorer descriptions were well supported. The orthodox teas with bright liquors received keen competition and sold at useful prices but the prices for plainer types declined in each sale. Once again, Russia continued to be by far the largest buyer of Darjeeling teas, and prices eased except for the cheaper varieties which sold well. The redeeming feature of the price trend during September and October was that the bottom of the market remained particularly strong and that prices prevailed well above those paid on the Calcutta market at the same time during the previous year. During the first two sales in November, there was strong demand for plain fannings and, although prices declined in the following sale, keen competition was again shown in the closing sale of the month. Other descriptions sold well, though the best C.T.Cs showed a decline in the later sales and prices for the poorer C.T.Cs and secondary types declined during the second half of the month. There was more enquiry for Darjeeling teas, especially those which showed a seasonal improvement in quality.

The following quotations for the 1959 and 1960 seasons (June to November) are interesting and illustrate the increase in the C.T.C. price range and the increase in the prices paid for common teas:

Tea Prices
(Per kg.)

	Season 1960		Season 1959	
	Highest	Lowest	Highest	Lowest
	Rs.	Rs.	Rs.	Rs.
Plain B.P. ..	4.56	4.25	4.54	3.59
Best Assam C.T.C. B.P.	10.74	5.74	7.72	5.51

Comparative Closing Average Quotation for November

	Plain		Medium		Best C.T.C.	
	B.P.	Fgs.	B.P.	Fgs.	B.P.	Fgs.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1960..	4.53	4.83	4.64	4.89	5.74	6.09
1959..	4.54	4.78	5.54	4.90	6.24	6.28
1958..	3.53	3.81	3.79	3.97	4.48	4.70

With the exception of the Cachar district, all areas have produced teas of a very satisfactory standard and, in spite of the shortfall in crop due to the drought in parts of Assam, a good standard of plucking was maintained. The better gardens from the former district have, considering the adverse weather conditions, maintained a reasonable standard but those gardens which have attempted to increase their crop by coarser plucking have been below standard. In Darjeeling, some of the higher elevation gardens produced some second flush teas with useful quality at the end of May and in the early part of June, but, after heavy rain, quality deteriorated rapidly and by the end of the latter month many gardens were producing teas of 'rains' standard. Teas from Upper Assam during this period were of a very satisfactory standard and the seasonal improvement in quality became apparent rather earlier than usual. The overall standard of manufacture was better than expected and some useful tippy teas were seen. During June, the liquors of teas from this area showed a marked improvement over May, and some invoices with second flush quality were produced. In the remaining areas of Assam, however, heavy rain followed the drought and, as a result, teas were often disappointing. The standard of teas seen from the Doors was useful in cup and, on the whole, quality was quite satisfactory for that time of the year.

During July, heavy rain was experienced in Darjeeling and a natural decline in quality was apparent by the end of the month, when very little flavour was noticeable, where in Assam second flush quality was apparent on many teas and the standard could be considered quite satisfactory. Some good quality teas of C.T.C. manufacture were seen, but, by the end of the month, fibre became prominent in the secondary grades and liquors were of 'rains' manufacture.

Teas produced in August were of a reasonable standard for the time of the year and, though the liquors showed the normal seasonal decline, leaf appearance could be considered to be quite satisfactory during August and September. The standard of leaf appearance from Cachar, however, continued to be below that expected and more stalk and fibre was noticeable than usual at this time of the year.

During October, some improvement in quality became noticeable in the Darjeeling teas, some of which possessed flavour. In Assam, however, liquors were similar to those of the previous month, but the Dooars showed some improvement in cup quality towards the end of the month.

The manufacturing season in Darjeeling came to a close in November, when leaf appearance showed its normal seasonal decline. Liquors showed an improvement, but it was not until the end of this month that a few invoices with attractive flavour were seen. In Upper Assam a few estates on C.T.C. manufacture produced useful autumnal invoices, but teas of this type of manufacture generally continued to be plain and rather ordinary. The orthodox teas maintained their good standard, although some invoices were seen which were rather "end-of-season" in appearance. The standard of liquors from the Dooars was good and some bright autumnal liquoring teas were seen particularly towards the end of the month. The majority of the top grades were well made, but some of the lower grades showed an increase in their stalk and fibre content.

Owing to the exceptional drought conditions prevailing during the early part of the season, the crop at the end of July showed a deficit of 30 million lbs. and, during that month, the crop had fallen by approximately 13 million lbs. There followed, however, an increase in production and the crop during the month of October, as compared with the previous year, was 8.5 million lbs. up, this being largely due to full plucking being carried on with no *Puja* break as in 1959. The North Indian crop, however, at the end of October was 34 million lbs. down on the previous year.

This shortfall in the North Indian crop has been almost entirely recorded in certain districts of Assam and this area on the 15th of November was 25 million lbs. (8 per cent.) down on 1959 and in Cachar 10.7 million lbs. (28 per cent.) down on 1959.

At the time of writing, the North Indian crop figure stands at 34½ million lbs. down (15½ million kg.) and it is unlikely that the season will close with any notable advance on this figure.

The latest crop figure available at the present time for the other producing countries (including South India) stands at 24.5 million lbs. (11 million kg.) in excess of 1959. The world crop, therefore, is at present lower by 10 million lbs. (4.6 million kg.) as compared with the position as of the corresponding period of the previous year.

Export Quota

A final export quota of 2 per cent. (15.1 million lbs.) for season 1959-60 was released on 8th March 1960, making a total of 507.6 million lbs. representing 67 per cent. of the crop basis. The carryover of special export licence into the present season (1960-61) was 105.7 million lbs. of which 23.7 million lbs. were used and 82 million lbs. lapsed after 31st May 1960.

An initial export release of 55 per cent. (412.5 million lbs.) of the 1960-61 crop basis was announced on 12th May 1960 and a second release of 5 per cent. (37.5 million lbs.) followed on 6th November 1960. Thus, the total release to date for the 1960-61 season amounts to 450 million lbs., representing 60 per cent. of the crop basis, which is similar to the releases in 1959.

The price of export quota moved between 2¼ and 2 nP per kilo during May, June and July, as against 8.8 and 5.5 nP per kilo in the previous year. During August, the price of export quota declined steadily from 1¾ nP per kilo to ¼ nP per kilo. There was no change in the price of export quota during the subsequent months upto the time of writing. During the same period last year, the rate came down from 5.5 nP per kilo to 3.3 nP per kilo by the middle of December. The reduction in the price of quota comes as a result of the increase in internal consumption this year and to the same quota release irrespective of the shortfall in crop below 1959.

Duties and Taxes

Below are given the current rates of taxes and duties on tea introduced by the Government of India and by the provincial Government of West Bengal:

Tea cess—Rs. 2 per 100 lbs. or Rs. 4.40 per 100 kg.
West Bengal entry at 0.25 nP. per lb.
*Assam carriage tax at 7 nP. per lb.
Export duty at 24 nP. per lb.
Excise duty:

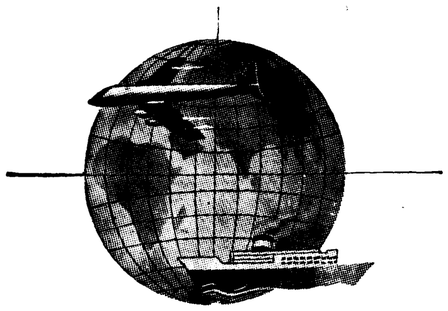
Zone 1 ..	2 nP per lb.	or	4.5 nP per kg.		
,, 2 ..	4 ,,	,,	,,	9 ,,	,,
,, 3a..	8 ,,	,,	,,	18 ,,	,,
,, 3b..12	,,	,,	,,	27 ,,	,,

* Now declared void.

(*Continued on page 242*)

Exports of North Indian Tea
(In lbs.)

	Shipments (January—November)			Difference in 1960 over 1959 (Million lbs.)
	1960	1959	1958	
United Kingdom	182,372,879	199,383,554	234,719,884	—17.0
Irish Republic	10,901,051	13,600,540	13,842,156	— 2.7
U.S.S.R.	13,922,205	15,813,675	17,219,476	— 1.9
Rest of Europe	6,113,864	9,649,014	6,290,904	— 3.5
Turkey	4,530,553	9,030,015	6,822,233	— 4.5
Canada	8,218,985	8,440,848	10,789,144	— 0.2
U.S.A.	11,916,304	14,409,800	15,263,951	— 2.5
Iran	7,349,192	7,555,998	9,843,599	— 0.2
Persian Gulf and Iraq	8,293,695	8,139,664	5,737,735	+ 0.1
Egypt	26,115,316	20,836,920	23,078,710	+ 5.3
Sudan	6,159,656	21,062,819	14,053,844	—14.9
Other Middle Eastern countries ..	456,417	412,001	607,109	+ 0.1
All other places	1,822,702	1,969,441	2,786,047	— 0.1
Total ..	288,173,709	330,303,709	361,054,752	—42.1



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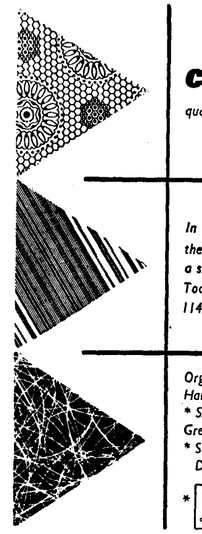
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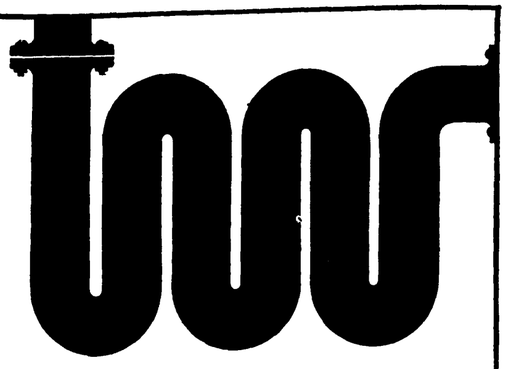
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RISING DEMAND FOR NON-FERROUS METALS

Tin and Zinc Advance—Copper and Lead Decline

CALCUTTA, 12*th December*

AN acute shortage of electrolytic zinc supplies throughout the year leading to persistent rise in price, a comfortable supply position in lead, sufficiency of copper supplies with those who import this metal as actual users, continued tightness of copper scrap supplies and the difficulties experienced by small users such as utensil manufacturers on a cottage-industry basis, and firmness of tin, thanks to the balanced supply-demand situation —there were the outstanding features in the metal market during the year 1960. The availability of virgin copper through the permit system was a matter of great satisfaction, as this enabled the non-ferrous metal products manufacturers to increase production. The Government of India's policy of gradual effacement of the established import trade was a matter of great disappointment and, in the latest import policy for the six months ending March next, even copper and brass semi-manufactures were taken away from the established trade. It remains to be seen how far the elimination of established importers and the handing over to actual users of the business of import and all its attendant formalities have been helpful to the industry. The contacts of the trade are thus being wasted and the industry is denied the services of a specialised branch of business, that is, import formalities and financing.

Shortage Aggravated

Even at the beginning of the year, it had become clear that the difficult foreign exchange position would restrict imports. In recognition, however, of the rising demand for non-ferrous metals consequent on the increased tempo of industrialisation in the country, the quotas for unwrought copper and brass scrap were increased to 100 per cent. and 50 per cent., respectively, in the April-September import policy, from 75 per cent. and 33⅓ per cent. in the previous six-monthly period. There was, indeed, severe disappointment among traders over the absence of any increase in the zinc quota which was maintained at 30 per cent. This aggravated the already existing shortage of zinc. Stocks at the beginning of the year were meagre, as imports amounting to 46,940 tons during 1959 were lower by 10,800 tons as compared with 1958. The price of zinc began to rise steadily, and there was no longer any relation between Indian and London quotations. It was believed at that time that the Government would not increase the zinc quota in anticipation of imports from Communist countries. This expectation did not, however, materialise and the zinc supply position worsened by and by as the year advanced. Towards the close of October, following trade talks between a Soviet delegation and Indian officials at New Delhi, it was announced that arrangements had been made for import of non-ferrous metals from the U.S.S.R. Prices in India began to give way. But it was thought that, until Russian supplies actually reached India, quotations would reach the parity of world markets. A feature of the import policy for the October 1959-March 1960 period is that, while, in view of the foreign exchange shortage, no increased quotas have been granted and virtually the *status quo* is maintained, established importers have been granted quota licences on a yearly basis. The items thus licensed are monel metal unwrought, tin block and tin scrap, copper unwrought in the form of ingots, blooms, etc., brass scrap, refined ferro-manganese (all below 3 per cent. carbon), zinc or spelter unwrought, and copper scrap. The Government also announced that, henceforth, imports of mercury would be done only by the State Trading Corporation. The Union Minister for Commerce and Industry, Mr. Lal Bahadur Shastri, had earlier stated that this step was proposed, in view of the abnormal prices charged by importers at the distribution stage.

While the country has made rapid strides in augmenting production of aluminium and steel, it would only be in the third Plan period that concentrated attention would be paid to the setting up of refineries for electrolytic copper and zinc. At present, India producers fire-refined copper only, and the production amounts to about 8,000 tons a year which meets just a fraction of India's expanding requirements. Imports of copper in 1959 amounted to 45,410 tons and hence it is seen that the country's consumption runs at an annual rate of 53,000 tons. Large ore finds, however, have now been located in Khetri in Rajasthan, and the Government proposes to license a 10,000-ton smelter in that region. At the same time, it is also proposed to commission a zinc smelter, to produce 15,000 tons of zinc a year from the zinc concentrates of the Rajasthan zawar mines. At present, India is exporting these concentrates to Japan for being smelted there. More production of lead is also planned. If lead production is not increased, it would be difficult to maintain the zinc smelter in full blast.

The table below depicts the trend of prices of the principal metals in Calcutta, Bombay, London, New York and Singapore. A brief reference to the main factors affecting prices in the Calcutta market in respect of the more important metals is made here.

Electrolytic Copper

As in 1959 so also during 1960, a free market in electrolytic copper was absent, in view of the releases of virgin copper only to actual users through the permit system. Although there were frequent complaints of delay in the release of permits, the manufacturers of non-ferrous metal products such as cables, pipes, tubes, sections, sheets, angles and tower bolts were content with the quantum of releases from time to time. Indeed, the production capacity of many units was increased and some new units for the manufacture of cables and semi-manufactured goods came into existence. With virgin copper thus away, from the free market, the barometer of the market was provided by copper scrap prices. Copper scrap was the only source of supply to the several small-scale brass-makers and utensil manufacturers. The utensil manufacturers in the mofussil centres cannot afford to invest large sums in importing copper ingots through the permit system, nor do they have the patience to go through the several import formalities. Even in early January, the price of zinc was so high that it was uneconomic to purchase the metal for making brass. With the result, copper scrap supply eased, as demand was withdrawn. Demand, however, soon developed, since the imports of virgin metal were insufficient to meet the requirements in full. Berry quality scrap touched as high as Rs. 232 per cwt. at one time in January, as against Rs. 225 earlier.

Bell-metal makers continued to buy copper scrap and, although the supply position was tight, berry quality eased to Rs. 230 in early March, for the absence of fresh levies in the Central Budget was considered favourable. In March, importers complained of heavy accumulations of scraps of various descriptions, as official allocation was proceeding at snail's pace. As a result, berry quality fell to Rs. 226 and touched a low of Rs. 222 in April. A recovery to Rs. 230 was recorded in May, following good demand from the bell-metal industry. At this stage, zinc again started moving up and copper scrap was neglected, so that berry scrap gave way to Rs. 216 in June and to Rs. 212 by July. Owing to the availability of copper against permits, scrap was unwanted, though, in August, the supply position was tight. Floods and disturbance to rail movements restricted demand from upcountry, but, towards the end of September when conditions improved, demand picked up and berry realised Rs. 218. The *Pooja* spell caused the traditional dullness in October when berry quality fell to Rs. 215. A weaker trend was also in evidence in November, as the news of arrangements for imports of non-ferrous metals from Russia had a bearish effect. In November, the price fell to Rs. 209, despite the gain on the London Metal Exchange and New York where the worsening situation in the Congo, and the strike in the Chuquicamata copper mines in Chile where the factors which led to greater demand. The U.S. Presidential elections steadied New York prices in particular. Following higher price trend in London in early December, berry quality here gained to Rs. 212. Demand, however, was low, in view of good availability of virgin metal against permit.

Zinc

After an early improvement to Rs. 155, following the inability of the State Trading Corporation to provide supplies to scheduled industries in time, electrolytic zinc moved down to Rs. 137, due to profit-taking and consumers restraining from buying. In expectation of a liberalised import policy, the price softened to Rs. 115 in March. Contrary to Mr. Lal Bahadur Shastri's hint at the Import Advisory Council meeting in February about the possibility of liberalisation of the import quota for zinc, it was a disappointment when it was announced that there would be no provision for increased imports. This was a signal for the price to move up, and it touched Rs. 140 early in April. Demand was not adequately satisfied and, in May, the price was as high as Rs. 158. There was acute scarcity in Bombay where the price was Rs. 10 higher than in Calcutta. Shortage was becoming acute, and diversion of supplies from Calcutta to Bombay was feared. Bucket galvanisers bought zinc persistently and, in the result, the price shot upto Rs. 160. This was in June. Fears that the threatened strike by Central Government employees would paralise the transport system resulted in greater demand on the eve of the strike and, early in July, the metal changed hands at Rs. 170. Demand was unsatisfied and, in August, the price gained further to Rs. 178. At this stage, a good quantity of 'permit' metal was released, and this pushed down the rate to Rs. 160 in August. However, consumers began complaining of poor allocation and this reversed the trend in September when the price recovered to Rs. 175. A reaction to Rs. 169 was the feature during October. due to prospects of increased non-ferrous metal supplies from Russia. Support was not forthcoming at the higher level, and the price declined to Rs. 161 in the beginning of this month. In the second week of December, however, the price recovered to Rs. 163, in view of shortage, although offtake was poor.

Tin

With comfortable stocks of Russian tin and lower advices from Penang, tin at Calcutta was lower at Rs. 537 a cwt. for some time in January. However, an improvement to Rs. 556 soon followed when overseas advices, particularly from London and New York, showed a dearer trend, induced by the end of the U.S. steel strike. Speculative demand in Bombay was also a factor for pushing up the Indian price. In February, the price touched Rs. 561 and the S.T.C., which possessed heavy stocks of Russian tin, quoted still higher price. This was followed by a decline to Rs. 545 in March, as Malayan advices were lower. Since support at lower level was substantial, stocks became poor and, before the month ended, the price had recovered to Rs. 550. At this stage, international prices were weakening and the news was circulated that the S.T.C. proposed to release a considerable quantity. Consequently, the price sagged to Rs. 538 early in April. The Bombay quotation was lower than Calcutta and hence the mofussil orders which should have normally been placed in Calcutta found their way to Bombay. A dull phase was the result in Calcutta, and the price declined to Rs. 536 before the month of April came to an end. Consumer demand at the lower rate was heavy and this developed into a shortage in May, the price hardening to Rs. 547. At this time, fresh arrivals at ports were also substantial and this enabled a close relation between demand and supply. The price naturally eased, and early in June, tin was quoted at Rs. 540. The L.M.E. quotation was moving up in the situation caused by the Liverpool docks strike and the Buffer Pool's inability to offer cash metal from 1st July. This caused the local quotation to move up steadily to Rs. 567 by the end of July.

Demand was running at a high level and stocks were depleted. However, fresh arrivals soon made the stock position comfortable. Demand also declined, and, in the whole of August, a sagging tendency was in evidence, to take the rate down to Rs. 546. This phase soon changed and, early in September, following good purchases, the price advanced to Rs. 563. Malayan advices were discouraging and the Calcutta quotation declined to Rs. 555 towards the close of September. In October, the rate moved down further to Rs. 551, but, following good consumer demand, it recovered to Rs. 563 by the end of October. In November, a squeeze was in evidence and a good amount of buying was done, as a result of which the price hardened to Rs. 577 towards the end of November. This was incidentally the highest rate touched during the year. Shortage was acutely felt but, on lower advices from the L.M.E., the price declined to Rs. 574 early this month. The price subsequently hardened to Rs. 576, despite weaker advices from both London and Singapore. For arrivals here were smaller than demand.

Lead

The supply position of lead, as stated earlier, was comfortable throughout the year and so the price movements were narrow. In January, the price declined from Rs. 73 to Rs. 72 a cwt. in the absence of adequate buying as compared to the quantity on offer. Plenty of scrap was also on offer. Indian lead was on offer at Rs. 71.50. This level of price was maintained during the months of February, March, April and May. In June, thanks to plentiful stocks, the price depressed to Rs. 66, which rate was maintained up to November. Since demand was so little as compared to supply, the price sagged to Rs. 63 in November. Early in December, sales were good, but, since these did not change, the price remained at Rs. 63.

Trend of Metal Prices

	Rate as on 31-12-1959	Lowest	Highest	Rate as on 9-12-1960	Net rise(+) or loss (—)
Calcutta (Rs. per cwt.)					
Clean wire copper scrap	218.00	209.00	236.00	212.00	— 6.00
Utensil copper scrap	210.00	190.00	216.00	200.00	— 10.00
Malayan tin	538.00	534.00	577.00	576.00	+ 38.00
Elec. zinc	153.00	115.00	179.00	163.00	+ 10.00
Lead	73.50	63.00	74.75	63.00	— 9.50
Bombay: (Rs. per cwt.)					
Elec. zinc	155.00	125.00	179.00	165.00	+ 10.00
Malayan tin	536.00	536.00	579.00	576.50	+ 40.50
Lead	76.50	69.00	77.00	68.00	— 8.50
London Metal Exchange : (£ per ton)					
Copper	255½	217½	279½	233	— 22½*
Zinc	94⅞	*85½	95½	85½	— 9⅜*
Lead	74	66	78⅜	65½	— 8½*
Tin	785½	780½	823½	797	+ 11½*
New York Commodity Exchange : (Cents per lb.)					
Copper	32·23	27·95	35·00	28·37	— 3·86†
Zinc	11·63	10·90	12·25	11·55	— 0·08†
Lead	10·97	10·05	11·79	10·20	— 0·77†

* Rates as on 10th December 1960. † Rates as on 8th December 1960.

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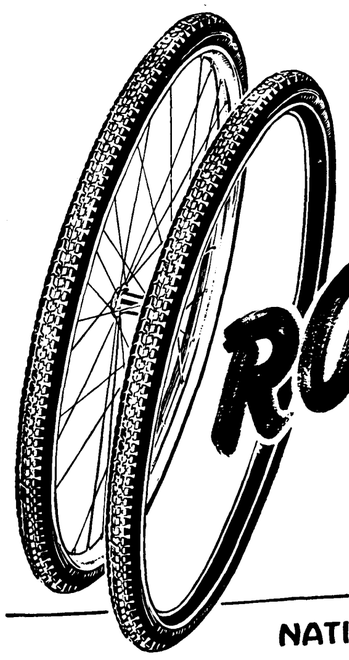
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Raw Jute And Jute Goods Climb Up

CALCUTTA, 10*th December*

THE year 1960 would be remembered as a critical period in the history of the jute industry. The drought, which delayed sowing by about six to eight weeks, led to fears of a short crop even early in the year. Fibre as well as goods were quiet up to March, when a steady upward trend began. The upward trend in fibre gathered momentum, as arrivals of new crop were poor and quality was far from satisfactory. Speculation in futures market became keen, and the East India Jute and Hessian Exchange Ltd. took a series of steps, including periodical revision of the special deposit margins payable on all forward transactions. These measures, apart from causing an immediate reaction, proved ineffective and, in the months of September to December, fibre prices touched prohibitively high levels. Alarmed at this state of affairs, the Forward Markets Commission examined the situation, and this was soon followed early in November by the announcement of almost penal rates of margin deposits. This measure had a salutary effect and fibre declined by Rs. 5 per maund. This, however, proved to be a temporary phase as, although fibre arrivals in October were larger than in September, arrivals in mills' stations during November and December fell considerably. This phenomenon was attributed to the improved financial position of cultivators and other middlemen. The consequent upward movement in prices of goods was unavoidable, but this was possible only at the cost of a noticeable fall in genuine business done in the goods for export. The fall in November-end stocks of goods, despite decreased production, testifies this view. In an attempt to introduce sobriety and reality in fibre prices, the member-mills of the Indian Jute Mills Association curtailed production in accordance with the limited availability of fibre. This step also proved ineffective, and, in the month of November, there were rumours of the Government of India proposing measures to requisition existing fibre stocks from growers and middlemen for methodical allotment to mills.

Simultaneously, the jute mills in Pakistan also announced their decision to stagger production. This caused a specific rise in prices in both Pakistan and India, as it had all along been believed that, with the lifting of the ban on acreage and also with cultivation in border areas, Pakistan would harvest a bumper crop. In fact, as arrivals of new fibre began to increase in India from October, trade circles took this as proof of the expectation that the crop in India would be higher than, or almost equal to, that of the previous year and that there was no basis whatsoever for the continued apprehension of shortage. But speculators found it easy to prolong these fears to their advantage, even though new crop arrivals in October were higher as compared with this time last season. The result was that jute goods continued to be quoted at very high levels without regard to reports from New York that consumers were searching for substitutes.

Good Foreign Demand

Earlier in January, jute goods looked up following satisfactory demand for export. The end of the U.S. steel strike raised hopes of imminent increased buying of hessian, and Chinese buying of B. twills continued in substantial quantities. Burma and Indonesia also showed keen interest in heavy goods. The prospects of Argentina increasing its purchases from Calcutta also pushed up prices. Against this background, the decision of the I.J.M.A. to continue in operation the 2½ per cent. looms even beyond 2nd January when, according to the decision made in August 1959, these looms should have been put off, was hailed with enthusiasm. The announcement of a fall in stocks of goods with mills as at the end of December by 6,500 tons to 58,700 tons added piquancy to the situation. Hessian 40″ 10 oz. rose from Rs. 41.95 to Rs. 43 and B. twills from Rs. 112.50 to Rs. 115.50. Fibre also moved up, despite the official assertion of self-sufficiency of indigenous jute, and the permission for the immediate import of 200,000 bales of jute cuttings from Pakistan was considered as containing a self-denial element to the official view. Assam bottoms, after being lower at Rs. 29.50 per maund, gained to Rs. 33, the course of the upward trend reflecting the shortage psychosis. For a time, subsequently in January, both goods and fibre eased, as higher levels did not attract buying, but reports of good consumption of burlap in the U.S. during December and the decision of mills to maintain a larger loomage in operation even beyond February were taken as indications that demand continued to be on the increase.

The feature in February was a mixed trend. Orders for substantial quantities of B. twills were placed by Indonesia, Burma and the Government of India. This was not reflected in prices, since the mills' stocks at the end of January increased by 12,900 tons to 71,800 tons. U.S. buyers indicated that prices must decline before they entered the market for replenishment of stocks, and that their support could follow only if hessian 40″ 10 oz. declined to Rs. 40 and the 8 oz. to Rs. 30. The report that U.S. burlap consumption in January fell by 8.5 million yards to 71.2 million yards had also a retarding influence on prices. For these reasons, by the end of February hessian 40″ 10 oz. had fallen to Rs. 41.05 and B. twills to Rs. 111.45. The lifting of the jute crop regulation scheme in Pakistan had a bearish effect on fibre prices. Assam bottoms sagged to Rs. 28.50 and, for a time early in February, arrivals registered an increase, which belied apprehensions of a possible shortage. In March, however, prices moved up, as fibre arrivals began to fall and this once again gave currency to the shortage psychosis, while the report of occurrence of small rains in Assam and a portion of the adjacent Bengal districts checked the upward trend on expectations of an earlier crop, if more rains fell, so that sowing could be done much earlier than usual. But rains were inadequate and mills also showed greater interest in fibre. Assam bottoms, as a consequence, rose from Rs. 29.75 to Rs. 32.75. Reports that Pakistan, by under-quoting India, had been able to divert several Continental orders from Calcutta chilled sentiment in the goods market for a time in March, and the high nature of U.S. burlap stocks was noted as an indication of U.S. ability to give support to the Calcutta market only sparingly. However, soon came the report that U.S. burlap consumption in February was higher at 75 million yards, as against 71 million yards in the previous month, and this pleased the market. Although buying of goods was restricted, in view of higher prices, the increased fibre prices pushed up hessian 40″ 10 oz. to Rs. 41.90 and B. twills to Rs. 113.70 towards the end of March. At this stage, Chinese buying of heavy cees was reported.

Prices Rise Further

A hardening trend in both goods and fibre set in early in April, which persisted in the next six weeks when conditions akin to buoyancy set in, thus foreshadowing the trend of developments that was in store. Keen buying orders from overseas for both hessian and heavy constructions, in general, and intermittent purchases of B. twills by the Chinese and hessian by the Americans, in particular, the decision of mills to increase production from 1st May by unsealing one per cent. looms, and the fixation of additional margins in respect of jute goods contracts for May and August deliveries and of raw jute contracts for September delivery in an attempt to arrest the firmness were the outstanding features. Hessian 40″ 10 oz. shot up from Rs. 42.70 to Rs. 54.50 and B. twills from Rs. 116.10 to Rs. 146. At this stage, Egypt and the U.S.S.R. entered the market, the former buying heavy goods and the latter hessian bags. It was apparent that, in order to meet the rising world demand, the mills should increase production further, and the Government of India wanted mills to unseal a further 1½ per cent. looms. Earlier in April, the Jute Commissioner announced his intention to issue licences for the import of 200,000 bales of additional Pakistani cuttings with a view to relieving the existing shortage in fibre and arrest the upswing in fibre prices. But the mills stressed that the Government's request to increase production further should depend upon the issue of import licences for additional quantities from Pakistan. The seriousness of the fibre situation was brought to light when the State Trading Corporation incurred a loss of Rs. 50 per bale in fulfilling outstanding commitments for the export of fibre to the U.S.S.R., following the disinclination of buyers to grant any more extension of delivery date. Rains in jute districts were inadequate and, in the drought conditions caused thereby, sowing was delayed. This phenomenon made sellers of fibre reserved, and prices reached very high levels. By the middle of May, Assam bottoms was quoted at Rs. 52, as against Rs. 34.50 early in April. Towards the end of May, reports that young fibre plants sown in areas after occurrence of the first rains had withered away, due to the absence of follow-up rains, and that resowing was needed, caused anxiety.

It was apparent that the new crop would be delayed by about six to eight weeks and that the size of the crop would probably be affected due to limited growing time. Mills were, however, disinclined to buy fibre at the higher prices, and the recommendation of the I.J.M.A. progressively to reduce production in the months of July to September also resulted in a softening influence to fibre prices. By early June, Assam bottoms had fallen to Rs. 48.50. Foreign buyers of goods left no doubt of their displeasure at the prevailing unjustifiable rates by reducing their purchases. These factors pushed down hessian 40″ 10 oz. and B. twills to Rs. 51 and Rs. 138.50 towards the close of May. A zig-zag trend was the feature in June and, though for a time Chinese feelers of inquiries led B. twills to rise to Rs. 136.75 early in June, by the end of the month, the price and moved down to Rs. 129.25 in the absence of much real buying. Hessian 40″ 10 oz. reacted to Rs. 45.50.

Output Curtailed

In accordance with the recommendations of the I.J.M.A., some mills began to reduce production as from 1st July. The June-end stocks of goods with mills recorded a small rise. In the absence of substantial buying by overseas countries, shipping was poor and, by the first week of July, B. twills were as low as Rs. 126.65 and hessian 40″ 10 oz. Rs. 44.55. The threatened strike by the Central Government employees and the apprehension of disruption to transport slowed down buying. Assam bottoms (new crop forward August-September) also dropped from Rs. 97.75 to Rs. 85.50 per 100 kgs. This proved only a temporary phase and the next three weeks of July evidenced a full-fledged rally in both goods and fibre. Heavy purchases of heavy goods by China, good internal buying both by commercial houses and Government, and Russian purchases of hessian worth Rs. 1.5 crore for August-September shipment were the main causes for pushing up B. twills to Rs. 138.25 and hessian 40″ 10 oz. to Rs. 46. The outbreak of communal disturbances in Assam led to fears of delayed despatches of new fibre from Assam districts to the consuming mills on the Hooghly. The selling agencies in Assam faced acute difficulty in recruiting trained staff who are mostly Bengalis. New crop Assam bottoms moved up to Rs. 95.25 per 100 kgs.

The month of August saw the continuation of the upward trend. If, despite meagre purchases of hessian by the U.K. and the U.S., hessian prices moved up, it was due to continued Russian support and release of import licences by Argentina for 10,000 bales of hessian for immediate shipment from India. Heavy goods met with support from Australia, New Zealand and China. B. twills hardened to Rs. 146.40 and hessian 40″ 10 oz. to Rs. 50.05. Not much notice was taken of the report that the U.S. consumers were turning to substitutes such as cloth and paper bags, as values in New York were steady. Activity in the futures market was keen as ever and the E.I.J. & H.E. Ltd. announced that fresh transactions in hessian cloth and sacking bags hedge contracts for August 1960 delivery and in raw jute hedge contracts for September 1960 delivery would continue to be prohibited up to 31st August and 14th September, respectively. These did not, of course, affect offsetting transactions. In the meantime, hectic conditions developed in the fibre market and these came to stay. Despite a marked deterioration in quality, new fibre arrivals found ready buyers in mills. The condition of the crop was reported to be excellent, thanks to moderate to heavy rains interspersed by bright sunshine. Arrivals of new crop were increasing. The Government's delay in issuing licences for import of Pakistani cuttings was the subject of severe criticism, since, had this been done earlier, the mills could have created a buffer-stock and the price trend in India would have been different. Suffice it to say that, by the end of August Assam bottoms had touched Rs. 111.25 per 100 kgs.

Contrary to expectations that fibre prices would decline in the pre-*Pooja* month of September consequent on the need of cultivators for cash, prices firmed up. This was taken as a firm indication of the strength of the holding power of growers strengthened by the spread of the co-operative habit. Fresh arrivals continued to carry a high percentage of moisture. Assam bottoms rose to Rs. 113.75. The extension of the voluntary loom-sealing scheme up to 31st December 1960 and the indication of the possibility of increasing the percentage of looms compulsorily sealed from 1st January 1961 by the I.J.M.A. were pointers of crisis facing the mill industry. Foreign inquiries for goods were dwindling. These factors reacted on goods, B. twills declining to Rs. 139.25 and hessian 40″ 10 oz. to Rs. 48.75. In October, fibre prices jumped up when it was announced that mills in Pakistan had decided to work reduced hours. So long it had been believed that Pakistan would be harvesting a good crop, but a contrary indication to this oft-repeated belief was a bolt in the blue and fibre prices in both Pakistan and India rose. Assam bottoms gained to Rs. 144.50. In an attempt to check an undue rise in prices, the mills stayed away from the market for a time and, subsequently, it was announced that the mills would be buying fibre only on a quota basis as determined by the I.J.M.A. This system was soon put into effect, but the rise did not abate. Mills reduced production by sealing-off looms, and this caused anxiety in both Calcutta and New Delhi. Subsequently, there were rumours of a possibility of requisitioning of fibre stocks by the Government and allotment to mills. Fibre prices eased for a time. Although foreign buying of goods was meagre, the report of setback to production in Pakistani mills was sufficient to push up B. twills here to Rs. 186 and hessian 40″ 10 oz. to Rs. 60 by the end of October. These incidentally were the highest levels of the year.

Early in November, fibre and goods rose to reach further high levels induced by the move to curtail production in Pakistan. This move demonstrated the strong feeling of fibre shortage in Pakistan. B. twills were as high as Rs. 185 and hessian 40″ 10 oz. Rs. 58.75 when the E.I.J. & H.E. Ltd. announced the imposition of heavy special margin deposits. This imparted weakness to the market. B. twills fell to Rs. 166 and hessian 40″ 10 oz. to Rs. 54. Assam bottoms also gave way from Rs. 140.50 to Rs. 124.50 per 100 kgs. At lower prices, fresh arrivals of fibre began to decline and so Assam bottoms recovered to Rs. 134. The Government of India's call for tenders for 10,000 bales of B. twills towards the end of November arrested the downward trend in goods, despite the meagre interest shown by foreign buyers and reports of the U.S. consumers showing greater interest in substitutes. These reports drew attention following the fall in U.S. burlap consumption in October by 9 million yards to 67 million yards. The continued rise in goods prices—at the time of writing B. twills have reached Rs. 178 and hessian 40″ 10 oz. to Rs. 56.25—has been due more to active speculation than to keen genuine buying, though the announcement of an increase in mills' stocks by 3,700 tons as at the end of November has checked the upward trend in goods. Fibre prices have also tended to move up. The year is thus closing with uncertainty and anxiety for the industry.

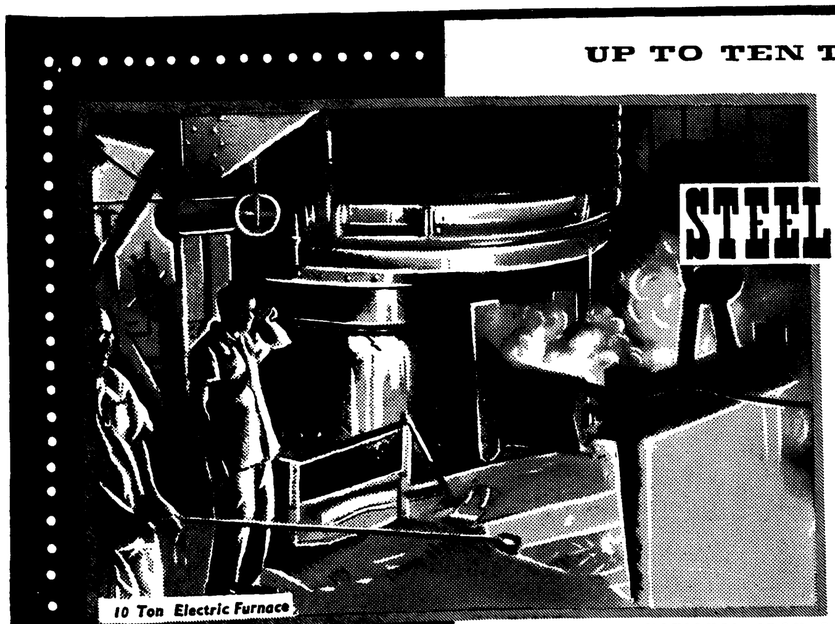
The trend of raw jute and jute goods prices during the year under review is indicated below:

Jute Goods

	Rate on 30-12-59	Lowest	Touched on	Highest	Touched on	Rate on 9-12-60	Net rise
	Rs.	Rs.		Rs.		Rs.	Rs.
B. twills (per 100 bags) ..	111.55	109.50	20-1-60	186.00	29-10-60	175.00	+65.50
Hessian 40″ 10 oz. (per 100 yds.)	42.35	40.90	29-1-60	60.00	29-10-60	55.25	+14.35

Raw Jute
(Per maund)

	Rate as on 30-12-59	Rate as on 9-12-60	Net rise
	Rs.	Rs.	Rs.
Assam bottoms	32.00	49.50	+17.50
Northern bottoms	31.00	49.00	+18.00
Daisee bottoms	34.00	51.50	+17.50



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MADRAS, 6th December

ASIA ranks first among all continents in cattle population and India accounts for a substantial portion of it. Animals are slaughtered in India for the meat and mutton trade; the hides and skins form its by-product. It is the tanner's skill that has contributed to the major export trade from South India. Foreign exchange to the tune of over Rs. 24 crores is earned by the industry every year. The need for earning more foreign exchange through larger export of hides and skins is urgent especially in the context of adverse balance of trade, consequent on the rapid industrialisation and economic growth under the Five-year Plans.

The industry is expanding steadily, thanks to the efforts of shippers, trade delegations, Ambassadors and Export Promotion Councils. Several countries which import E.I. tanned skins and hides and dry salted goat skins have protective tariff to foster their domestic industry and to safeguard their labour. Delicate handling of the situation will bring about a gradual withdrawal of restrictions in the importing countries. The import duty on E.I. tanned hides and skins has been abolished in the U.S.A. and reduced to 5 per cent. in Italy during the period under review. The chief outlet for E.I. tanned hides and skins has been the United Kingdom, though the export trade has been on the increase year by year with the Continent. The U.S.S.R. has been importing dry salted goat skins from India and is likely to take tanned skins as well. The other East European countries are interested in our productions which have secured foothold in their market. They are conducting experiments with a view to taking more of our merchandise, in exchange for their exports to India. They are vigorously raising the standard of life of their people, and this involves a marked increase in the use of leather.

Tanners' Faith

The tanning industry is one in which private enterprise has been playing a considerable part in promoting national income. In South India, it has been developed as large-scale, independent but loosely knit cottage units, spread out over a large area, depending mostly on manual labour. The tanners have limited financial resources and have not changed their attitude towards the industry. Being individualistically inclined, they have not been able to evolve a group attitude towards trade problems. But they have great faith in the vitality of the trade and have carried it on heroically, despite severe losses during spells of low demand. They have been complaining about the insufficiency in the availability of raw hides stocks of good quality at economic price levels, due to keen competition of chrome tanners for whatever is available. The prohibition of cow slaughter in some States, the high prices ruling in East Pakistan, the duty imposed on raw stocks exported from Pakistan, and the high prices for tanning materials stand in the way of tanners on occasions to keep their output in line with world prices. Viewed thus, the tanners are, indeed, to be congratulated on producing export worthy goods with a view to keeping their output in step with the growing demand of the export market, which has become more and more quality-conscious.

In November 1960, the ban on cow slaughter imposed by Bihar, Madhya Pradesh and Uttar Pradesh was declared as not enforceable by the Constitution Bench of the Supreme Court of India which held that the restrictions were unreasonable and unconstitutional. This has been welcomed by the trade which expects larger arrivals of better class raw hides hereafter for the E.I. tanners.

Steady Demand

The outstanding feature of tanning trade during 1960 was the steady export demand for superior tannages and standard marks, and a satisfactory turnover in these types. While E.I. tanners expected that the price levels of kips which prevailed during April-May 1959 would be established eventually, importers overseas were hoping for a return to 1958 levels and to maintain it. But both were disappointed.

The first half of the year under review was a difficult period for the kip tanners. Prices were held firm at origin till April, in view of the exceptional strength in raw markets. Overseas buying was restricted, as kip prices were not remunerative to dressers who strictly followed a hand-to-mouth buying policy with emphasis on superior marks. The volume of trading in tanned cow hides and calves with the U.K. during January-June declined by 15 to 20 per cent. on 1959 average. Light weights in F.A.Q. marks were dull, and several stockholders were finding it difficult to hold their inventories indefinitely. Importers were bidding the market down and, during the second quarter of the year, lower prices were established. Heavy weights and lower ends of medium weights, however, remained fairly steady, due to short arrivals, and inquiries from European countries. The demand from the East European countries, though not large, did upset the market for U.K. trade, as higher prices were paid for them. Their offtake was, of course, only 900 bales of cow hides, against 15,000 bales shipped to the U.K. during January-June 1960.

Kips Bearish

The kip market was bearish during the third quarter of the year and prices declined further. Tanners were badly hit and stocks were accumulating with them. Export demand was selective. Cow hides light weights were difficult to move, especially lower end. Importers, however, were buying kips offered at bargain levels, due to distress sales. Fortunately, there was some demand for fifths selection in light weights from Germany in September which arrested a further decline in prices. Further, due to partial dock strike in the U.K., incoming cargoes were held up in September-October. Stocks with dressers were low and this revived demand for spot stocks and for shipment. Prices increased steadily thereafter, and tanners were happy that the year was not closing unprofitably for them.

Inland demand for lower grade kips was brisk during January-May 1960 and this was helpful to tanners, in view of poor offtake for export trade and greater accumulation in the selection with them, as their tannery output turned out to be more of poorer grades contrary to their expectation when buying raw stocks upcountry. Demand was slow during June-October, and prices declined steadily. Market, however, revived briskly during November.

There was good call for tanned cow calf during January-May. Good tannages fetched attractive prices. Prices subsequently leavened off, in sympathy with the decline in the hides section. During the second half of the year, demand was patchy. Stocks of good marks were in short supply and did not meet the specific requirements of the importers. Ordinary tannages were neglected and the tanners took low prices to liquidate the stocks.

Production of buffalo hides was smaller than usual. Demand was good for what was available but at uneconomical prices to tanners. U.K. buyers showed more interest, but were not able to pay the prices offered by the U.S.A.

Buff Calf Declines

Tanners of buff calf were hard hit, due to poor offtake for export trade. Some had to ship their stocks for sale in the U.K. on consignment basis. Prices declined sharply during April-May. Demand was small during the rest of the year. Importers in the U.S.A. took only small quantities of buff calf and were interested only at pretty low prices, as they were finding that Madras levels were out of line with their domestic hides. They took just 35 per cent. of their 1959 import of buff hides and calves during January-June 1960 which, however, improved to 50 per cent. during July-September, because the decline in prices at this end stimulated demand.

The average monthly quantities of E.I. tanned hides and calves (in bales of 600 lbs. each) exported to the U.K., the Continent and the U.S.A. were as under:

	1957	1958	1959	1960 Jan.-Nov.
Td. cow hides to U.K.	2,770	2,000	3,060	2,541
Td. cow calf to U.K.	202	164	278	184
Td. buff hides to U.K.	44	19	27	48
Td. buff calf to U.K.	328	281	323	304
Td. cow hides and calf to Continent	10	13	188	185
Td. buff calf to Continent	8	3	70	79
Td. buff hides and calf to U.S.A.	128	147	299	130

It will be noted from the above figures that the importers on the Continent were showing keen interest in E.I. tanned cow hides and calf and buff calf, during the period under review, while shipments to the U.K. and the U.S.A. declined appreciably.

In the tanned goat skins section, E.I. tanners were more fortunate than the kip tanners. They were trading on sounder lines, had several export markets and were generally selling for three months shipment which enabled them to regulate their buying and selling programme. Superior tannages were in good demand, while commons were neglected, unless at very poor prices.

Buyers of raw goat skins on U.S.S.R. account who were paying attractive prices in Upper India extended their operations nearer Madras during January-February 1960, and this upset all calculations of E.I. tanners. Tanned goat skins were pushed up too high. It was, however, shortlived, as importers found Madras levels uneconomical. Prices declined sharply during March-May and slightly improved in June, but the quantities sold were meagre. Light weights had better buyers than for heavier averages, but export trading continued small and patchy during July-September. Prices declined by over 6d. to 10d. per lb. Inferior selections were sticky and the tanners output did not come up to their expectation regarding top selections. During the last quarter of the year, demand for suede selections revived from the Continent and prices moved steadily upward for selected marks, despite buyers' resistance to prices quoted by tanners.

Export Quota

In February 1960, the Government of India reduced the export quota to shippers of raw goat skins by 50 per cent. in order to enable E.I. tanners to process and export tanned skins in a larger volume and earn foreign exchange. The opposite happened, because importers withdrew from the market expecting larger output, and prices declined abruptly. Finding that this was likely to create a glut of stocks, the Government liberalised, in June 1960, the export quota considerably for the half year ended November 1960, neutralising the earlier cut. It was expected that the U.S.S.R. would take larger quantities of raw goat skins after July 1960 for export, but this did not materialise. During October-November, trade agreements were entered into by the Government of India with the U.S.S.R. and other East European countries and it was hoped that there would be a greater flow of export trade in hides and skins with them in the New Year.

The market for tanned sheep primes and semi-primes classes was good throughout the year. Tanners of middle class and commons were badly hit. The interest shown for poorer classes during January-February 1960 waned completely during the subsequent six months. Stocks were accumulating in the market, depressing prices considerably. Importers showed some buying interest during October-November. Tanners would do well to remember that there is a price level at which poorer tannages of sheep skins would price themselves out of the picture. As regards prime and semi-prime classes, peak prices were paid in April and there was a mild decline subsequently. Prices ruled steady throughout the second half of this year, following selective demand, especially for higher selections.

Shipments of Tanned Skins

The volume of export of tanned skins to the various destinations was more or less unchanged, except to the U.K. and Japan. The average monthly shipments—in bales of 560 lbs. each—were as follows:

	1957	1958	1959	1960 Jan.-Nov.
Tanned goat skins:				
U.K.	804	682	630	529
Continent	550	596	564	553
U.S.A.	81	73	160	178
Tanned sheep skins:				
U.K.	592	419	555	448
Continent	151	166	300	317
Japan	153	120	155	129

In the periodical tanned skins public sales held in London, most of the lots on offer were either substandard or outside grades, in which buyers did not show interest at the limits placed on them. Stocks were carried over from one sale to another, incurring charges and the consignors overall fared badly in the end. As in the U.K., tanned skins public auctions were started in Germany and took place in September, October and November. Most of the parcels sent were not of the types currently required by the trade, and were excesses after packing c.i.f. orders. Well selected parcels fetched attractive prices, but sub-standard lots were difficult to move.

Man-made Leathers

The E.I. tanners must note that man-made materials have established themselves as acceptable substitute for leather and, unless E.I. tanned hides and skins are available at *economic prices*, there is every possibility of serious inroads, being made in their traditional export market. It is reported that 75 per cent. of British footwear is made of non-leather sole, taking the figures for January-March 1960, and the tempo has been on the increase. Upper leather substitutes are also making headway in the U.S.A. and are likely to invade other markets in due course. It is upto the tanners and shippers to develop the export trade along healthy lines and cultivate the goodwill of consumers overseas by shipping proper standards and in correct time as contracted and guard themselves against pricing their products out of the world markets.

Demand for industrial leather and footwear in India has been on the increase, and will grow further, in view of impending import restrictions consequent on the adverse trade balance.

The outlook for the industry is encouraging and it can move into the New Year with confidence.

TEA REALISES SATISFACTORY PRICES

(Concluded from page 236)

There is a Government proposal to merge the various State levies into one consolidated tax and an enabling measure has recently been passed in the Indian Finance Act (1960) raising the maximum rate of excise from 19 to 30 nP per lb. No alteration, however, in the effective rate of taxation is intended.

In the month of October, the Supreme Court, which heard appeals by certain producers against the State of Assam, declared void the Assam Taxation Act 1954 for goods carried by road or inland waterways. This tax had been levied at the rate of 7 nP per lb. No statement has yet been made as to whether the Assam Government will refund past payments of this tax to producers.

Conclusion

From the figures available of the estimated internal consumption, it would appear that consumption within this country has increased by approximately 100 million lbs. during the past ten years. It is worth noting, however, that, while internal support of common teas has raised the price level for this type of tea, some exporters may be forced to look elsewhere for their requirements.

The U.K. stock at the end of November stands at 138 million lbs. (62.5 million kg.), as against 130 million lbs. (59 million kg.) at the same time last year. Eleven millon lbs. (5 million kg.) less has been sold in the Calcutta auctions to date and the London auctions have disposed of 31 million lbs. (14 million kg.) less, this being due, to some extent, to the recent strike in the port of London, which limited the quantities on offer in the weekly auctions.

The total shipments, both Calcutta sales and London auction teas, to the U.K. to date are 137 million lbs. (62.2 million kg.), as against 149 million lbs. (67.6 million kg.) last year.

As the stock carryover of tea into 1961 will be less than last year due to the shortfall in the total world supply, and as it is reasonable to suppose that the world consumption will not be less than last year, a satisfactory market trend should prevail upto the end of the 1960-61 season. The good market prices ruling this year should result in a reasonable margin of profit for all producers, with the exception of those less fortunate in Cachar and in certain parts of Assam who have suffered from the severe shortfall in crop.

ASSAM SILLIMANITE LTD.

CHAIRMAN, MR. S. M. WAHI'S STATEMENT

THE Ninth Annual General Meeting of the Assam Sillimanite Ltd. was held at Gauhati, Assam, on 19th December 1960. In the course of his statement at the meeting, Mr. S. M. Wahi, Chairman of the Company, said:

"The Company has made some further progress during the past year, with production increased to 6,957 tons and transportation from the mine reaching a figure of 7,107 tons. The improvement effected in the working of the Company has reflected itself in the profits being Rs. 3,18,488.09, available for disbursement. The shareholders get Rs. 1,80,000 less tax; Rs. 1,05,873 go to income-tax and Rs. 32,615.09 have been taken over to next year. On the basis of the above working results, the Board decided to declare an interim dividend of 6 per cent. in October and this has been recommended to the shareholders to be approved as the final dividend for the year.

"The Directors' report and the balance-sheet, along with the Auditors' report, have been with you for some time and, with your permission, I shall take them as read.

Main Refractory Plant at Ramgarh

"You will, I am sure, want to know what progress has been made with regard to the establishment of the refractory plant at Ramgarh, Bihar, to which I had referred in my speech last year. Due to the delay in the Government's approval of the investment and stock option agreements, the original deliveries of plant and machinery offered by the suppliers in Germany have been greatly altered. The phasing of the project had to be redone on the basis of firm quotations and deliveries now offered for plant and machinery.

"The revised project would cost Rs. 81.23 lakhs for the first stage and Rs. 47.60 lakhs for the second stage. In the first stage, 29,000 tons valued at Rs. 96.20 lakhs of finished high class refractory bricks and shapes, mortars and mixes would be manufactured. On the basis of the present plans, orders for plant and machinery to be imported would be placed during January 1961. According to the deliveries stipulated, shipments could be expected by July 1962 and, after erection, production should commence from October 1962. Thus, in the financial year 1963, approximately six months' working results would be reflected in an estimated production of finished products worth about Rs. 48.10 lakhs.

Initial Refractory Project

"The working results of the financial years 1961 and 1962 would, therefore, reflect no gains from this new project, while the investments and expenses would, of course, be there. The Directors had, therefore, decided to cover this interim gap by

"(*a*) establishing immediately a refractory plant at Ramgarh, using indigenously procured plant and machinery, with an installed capacity of 5,000 to 6,000 tons;

"(*b*) increasing production at the mine by another 25 per cent. over the existing figure of 7,000 tons, through further capital outlay on plant and machinery for mining;

"(*c*) development of fireclay deposits recently acquired in and around the vicinity of Ramgarh project for own consumption and sale.

"With these developments and forward planning, it is expected that the Company would be in a position to have the desired profitability and cash flow during 1961 and 1962. It would, however, be quite a strain initially to develop these projects from the existing financial resources of the Company. The initial project would go into production from January 1961, producing 6,000 tons of fireclay bricks and shapes for the industries in the vicinity.

"You are aware of the need to gear our development to the dynamic requirements of the country. The prosperity of this country is largely conditioned by the way it solves the problems of its major industries. There is a rapid expansion of the steel and other industries in the country both in the public and private sectors, and there is a gap between the installed capacity for refractories and the anticipated requirements in the second and third Five-year Plan periods. The present installed capacity of refractories in India is 500,000 tons per annum approximately, whereas the anticipated requirements by the end of the second Five-year Plan period alone are estimated at twice the present installed capacity. Imports of refractories are consuming a large chunk of foreign exchange of the country. With the big industrial development, these requirements will continue to rise even beyond the one-million-ton target envisaged at the end of the second Five-year Plan.

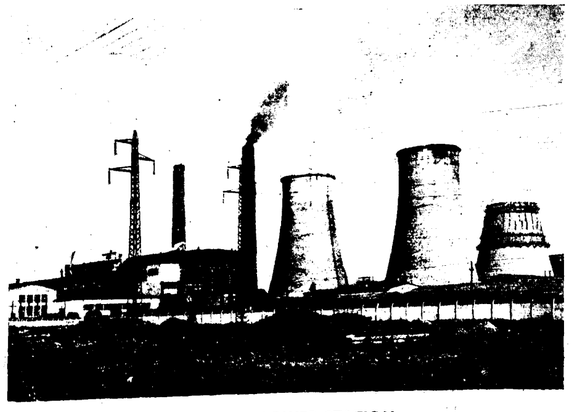
Expansion of Mining Operations

"There is only one other point that I shall touch before I conclude. The Company's diversion in the field of industry should not be allowed to lessen its interest in covering the mining operations. The expansion which was planned last year in respect of our mining operations has been undertaken at Sonapahar mine and will be gradually extended to the areas in other States where we have received prospecting licences and are obtaining the mining leases.

"The personnel at the mine with their hard work have made Sonapahar an excellent spot. Some good labour welfare work has also been done, including the establishment of a fine children's school. With a pretty lake recently completed and with pineapple orchards along with other agricultural developments, Sonapahar is growing to be an attractive spot for the people of the locality.

"The Mine Manager with his enthusiasm for flying has established a runway which has made Sonapahar approachable by air in 20 minutes' flying time from Gauhati. A small aircraft recently acquired by the company would prove extremely useful for prospecting and mapping new deposits in the hilly terrain around Sonapahar. A new life seems to be bubbling in this tribal area, hitherto disconnected from the rest of the world. Several such underdeveloped areas have to be developed in India and Sonapahar could easily be set as a good example. And in all this the unceasing efforts of the staff have to be appreciated."

Note: *The above statement is not a report of the proceedings of the annual general meeting referred to.*



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"COMMERCE" COMPLETES FIFTY YEARS

(*Concluded from page 18*)

the business, academic and administrative spheres not only in India but also in other free countries.

The fundamental role of *Commerce* has always been to inform and enlighten its readers, and not to entertain them. This role it has continued to perform to this day under a succession of able British and Indian editors. It is noteworthy that no Englishman has been the editor of this journal since 1938—a fact which may be seen as a further fulfilment of the purpose of its British founders, who had conceived it as an Indian paper devoted to Indian national interests. If, like *Capital*, it has also worked for the promotion of Indo-British trade, commerce, industry and finance, it has done so as part of its general policy favouring healthy and mutually beneficial economic relations between India and the rest of the world, more especially the non-Communist part of it. On the occasion of its Golden Jubilee, it faces the New Year with confidence and looks forward to the opportunity of rendering useful service to the nation and the world in the next five decades which promise to be more momentous and exciting than the five decades that are over.

"Indian Finance"

The third entrant into the field of financial journalism was *Indian Finance*, which was founded in 1928 by Mr. C. S. Rangaswami, a born genius, who had then gone to Calcutta from Bombay where he had lost a fortune as quickly as he had made it on the stock exchange. Restless and enterprising like the founder of *Capital*, Mr. C. S. Rangaswami introduced into his enterprise a consciously nationalistic element which attracted the attention of British administrators and Congress leaders alike. But his journal had, according to his own affirmation, no affiliation with any political party or business interest. *Indian Finance* has the distinction of being the first and purely national enterprise in the field of financial journalism and it gave a valuable opportunity for quite a good number of young Indians to blossom forth as commentators and chroniclers of economic events, national and international. From its very inception, it has had as its aim the building up of a body of informed opinion on the importance of the money market and on its link with public finance, on the one side, and the national economy, on the other. The "World of Finance" has, therefore, been a distinctive feature of this weekly.

In this column, as in the editorial section, *Indian Finance* has had, from time to time, a measure of success in spotlighting the importance of the money market. For instance. its advice to the Government of the day in the wake of the 1931 devaluation (which it had clearly foreseen) fell on receptive ears. In the words of Mr. C. S. Rangaswami himself, writing in the Silver Jubilee Number of his paper, "the recommendations of the Banking Committee for the appointment and progress of which this journal could claim special credit, became effective in consolidating opinion in favour of the establishment of a central banking institution. The part which *Indian Finance* played in ridding the original ideas in this regard of their bad features and ensuring the establishment of the Reserve Bank in its present form was acknowledged by the late Sir Osborne Smith in a letter to us." *Indian Finance* has also justly taken credit for creating public interest in the 'thirties in the concept of economic planning. But its consistent advocacy of cheap money policy and of larger public expenditure even if it be financed in unorthodox ways—all opposed to conservative financial procedures—has not always been justified by events. But, perhaps, the controversy between "cheap money policy" and "dear money policy" would appear to be as endless and inconclusive as the controversy between idealism and materialism in philosophy. Be that as it may, the fact remains that the founder-editor's approach to financial and economic questions had been quite often one of "intuition." This is no disparaging remark, for, if the intuitive analysis has its demerits, sometimes it has its merits too.

The waywardness of economic facts has been more and more in evidence, what with the complexities of multi-sided economic planning and industrialisation since the fifties—complexities demanding a continuous collection of statistical and other data and their interpretation. The intuitive analysis associated with *Indian Finance* has, therefore, been less and less in evidence under the editorship of Mr. C. S. Rangaswami, Jr., but, at the same time, the paper has not also felt the need for a statistical and research department of its own to provide the raw material for the economic writer's interpretation and generalisation. The lack of a statistical and research section does not, however, appear to have been much of a handicap, for the paper's familiarity with the trends in the money and the stock and share markets has been a compensating asset. In dealing with the financial affairs of companies, this weekly has had some early achievements to its credit by way of fructuous pleas for amalgamation or financial reconstruction or other rationalisation of business corporations. While *Indian Finance*, being itself a product of individual enterprise with its inherent risks and uncertainties, has generally been a well-meaning friend of private enterprise—although, as it happens sometimes, friends can be no less embarrassing than enemies—it has not also hesitated to criticise it at times. The overall impression that it has always produced is that it presents the genuine difficulties of the private sector and pleads for their redress and, at the same time, helps that sector to understand the complementary role played by public enterprise, of which, incidentally, it has never been a hard critic.

"The Eastern Economist"

The reader may have thus far understood financial journalism, as represented by the three oldest weeklies in the line, in a non-political sense, that is, in the sense that it deals with fiscal, monetary, banking, commercial, industrial and other economic matters, without any continuous or direct reference to political factors and trends. If he has understood it in this sense, he is not wholly in the right, for the stated or unstated assumption of Indian financial journalism, operating as it does within an institutional framework based on private property relations, is that it is politically anti-socialist or anti-communist in varying degree. With this assumption in the background, it has instinctively found itself in sympathy, on most occasions, with a political party—in this case, the Indian National Congress—which could ensure stability and conserve the established order at least in its fundamentals, namely, private property, freedom of enterprise and business organisation, representative democracy, freedom of criticism, etc. Not only in this sense but also in a related sense, namely, that most economic problems have to be ultimately solved at the political level, Indian financial journalism has had an implicit, at times even explicit, political approach. In fact, it has not been oblivious of the play and inter-play of political and economic factors in the realm of national progress. But its greater preoccupation with the daily market problems of the two leading commercial and industrial cities—Calcutta and Bombay—has meant a proportionately lesser interest in purely political matters.

This void (in its relative sense) has been happily, sometimes even unhappily, filled by *The Eastern Economist* of New Delhi. A politico-economic weekly, planted by Mr. G. D. Birla at the very doorstep of the Government of India in 1943 and edited by Dr. P. S. Lokanathan for the first three years or so, it was conceived as the eastern counterpart of the London *Economist*. As much was said by its present editor, Mr. E. P. W. da Costa, when he wrote on its Tenth Anniversary: "It was in fact started almost exactly at the time that the *Economist*, London, celebrated its centenary, and imitation on that occasion was meant to be the sincerest form of flattery." With its mixture of political, economic and politico-economic articles and notes, its "Business World" section and its monthly "Blue Supplement" dealing with a single subject, *The Eastern Economist* has continued to provide a varied fare, short of weekly coverage of trends in the money, the stock and share and the commodity markets. But, sometimes, its statistical and research department (which has also been assisting in the publication of a quarterly, *Records and Statistics*, under the editorship of Mr. R. V. Murthy, a former editor of *Commerce*) has provided, through special articles, statistical analyses of market trends in different spheres. Like *Capital*, it has also constructed and maintained indices of Indian Industrial Production, Indian Agricultural Production, and Indian Business Activity.

Although the *Eastern Economist* was founded by Birlas, it does not seem to have narrowly identified itself with their business interests. In fact, it has all along fancied itself in the role of a democratic champion of the private sector as a whole. If the Chief of General Motors can say that "what is good for General Motors is good for the United States," it would be wholly natural if Birlas were to think that "what is good for them will be good for India or its private sector." Perhaps, only in this limited sense the Birla approach to India's political and economic problems may sometimes be reflected on the pages of *The Eastern Economist*. Otherwise, its character as a politico-economic journal has all along reflected in no mean measure the mind of its exuberant editor, Mr. E. P. W. da Costa, who seems to be eternally striving for that elusive synthesis between Western political and economic thought with its psychological undertones and the Indian tradition in philosophy and social organisation with their spiritual leavening.

"The Economic Weekly"

The youngest entrant into the field of financial journalism is the *Economic Weekly* of Bombay, founded by Mr. Sachin Chaudhuri in 1949. It is described as "A Journal of Current Economic and Political Affairs," and its founder-editor has given it a certain academic character by publishing learned contributions from university men and from experts or specialists in the official world. As university professors and statistical and economic experts in the Planning Commission and elsewhere are not in intimate touch with the market place or the world of commerce and industry, they have their all too natural and understandable left-wing or radical inclinations. These find expression in *The Economic Weekly* which has also a similar orientation. But, at the same time, no hasty judgment is possible to the effect that this weekly is either an uncritical supporter of the public sector or an uncharitable critic of the private sector. With its broad acquiescence in the "socialistic pattern of society" that is sought to be evolved, *The Economic Weekly* seems to have been striving earnestly to strike a balance between socialist ideology and economic reality, with what result it is difficult to say.

"Vyapar"

No account of financial journalism in India will be complete without reference to *Vyapar*, a weekly published in Gujarati from Bombay City, under the enterprising editorship of Mr. H. Z. Gilani. Established in 1949, it has the privilege of being the pioneer financial journal in a regional language. Its circulation is appreciably larger than that of any of its contemporaries in English. This is as much a tribute to its publishers as to the business men in whose language it appears and who hold a dominant position in India's trade and industry. Comprehensive coverage of *all* markets and concentration on news stories that interest business men are its special assets.

Financial Sections in Dailies

With this we have practically come to the end of the story. Only something would need to be said about the financial and commercial sections of daily newspapers. Although they are only one among many other features in the daily Press and, as such, do not strictly belong to financial journalism as it has been approached in this article, their daily coverage of quotations in the share, bullion and commodity markets and their short notes and reports on company accounts, money market, etc. have been of great help to investors, brokers, traders and financial institutions. In more recent years, especially after independence, economic columnists special correspondents and leader-writers in the daily papers have also acquired an incredibly immense importance, for economic affairs have acquired an unparalleled importance in the era of planning and industrialisation. Economic analysis and comment in the national as well as the international setting and economic intelligence in a never-ending stream have thus become a large part of the fare provided by the daily newspapers. But they can only be a part of their mixed fare. The recognition that the field to be covered is so vast that it cannot be wholly or satisfactorily covered by the usual daily newspapers seems to have provided the inspiration and the impetus for the forthcoming two financial dailies in Bombay—*The Economic Times* and *The Financial Express*. What shape they will take or how popular they will be, it is difficult to say before they actually see the light of day. But at least one guess may be hazarded. It is that just as financial dailies and weeklies continue to coexist and flourish in their respective spheres in several of the developed countries of the world, so also the new financial dailies and the older financial weeklies may well co-exist and prosper together in an expanding economy which India is today.

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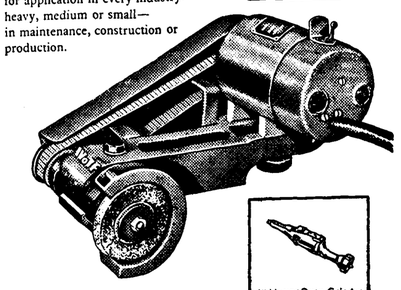
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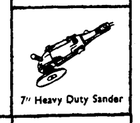
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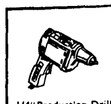
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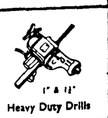


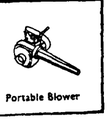

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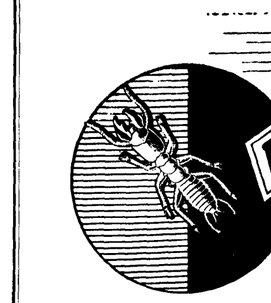
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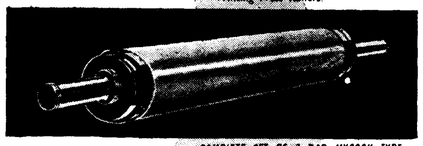
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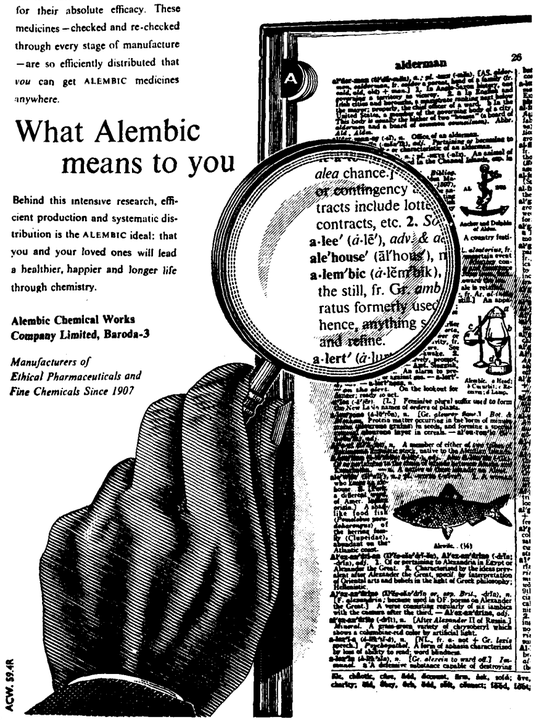
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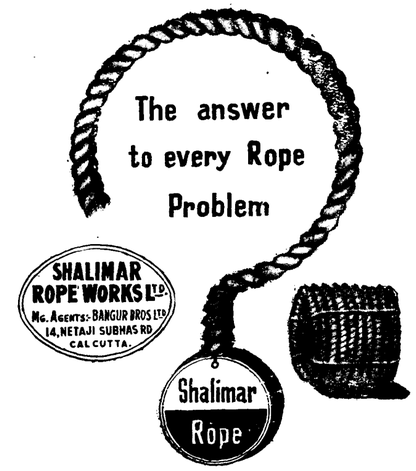
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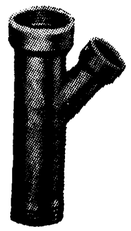
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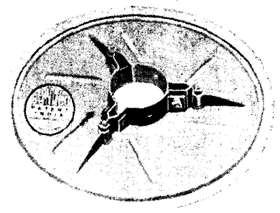
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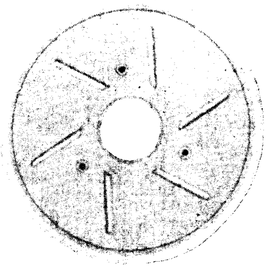
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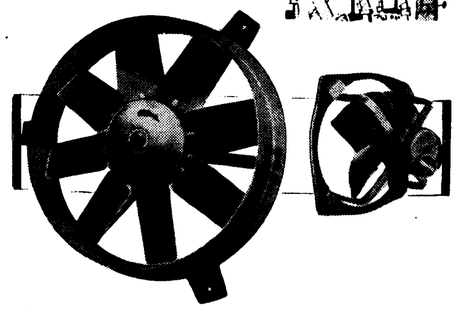
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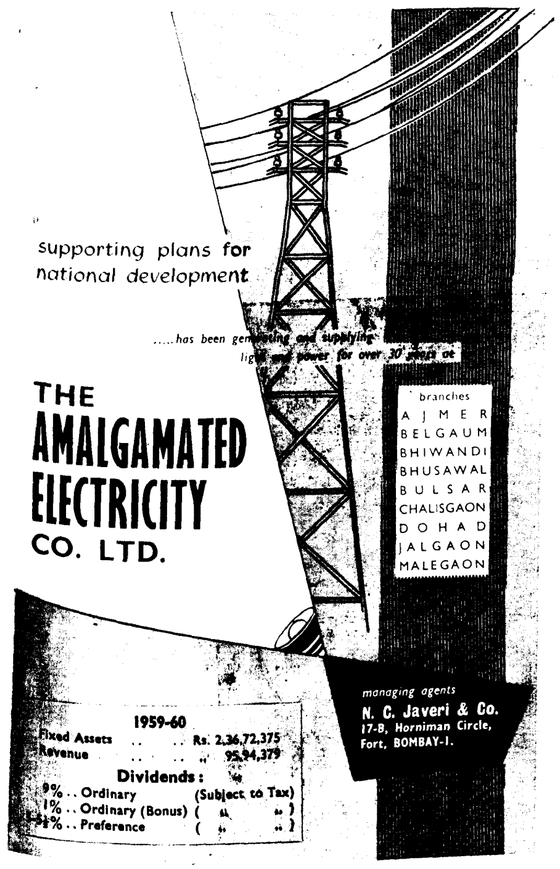
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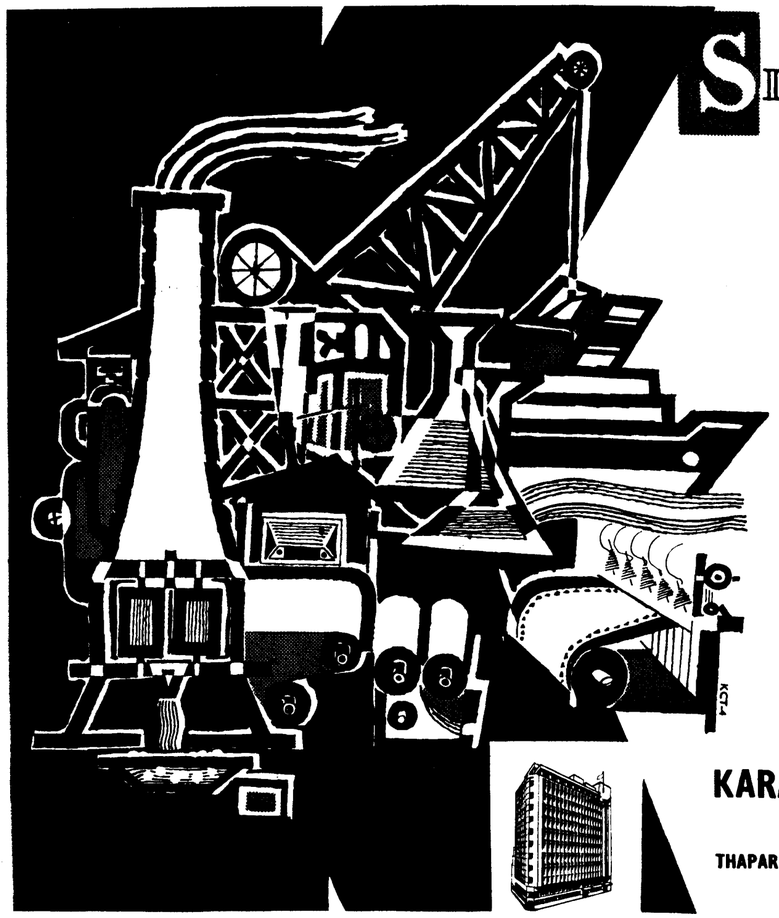
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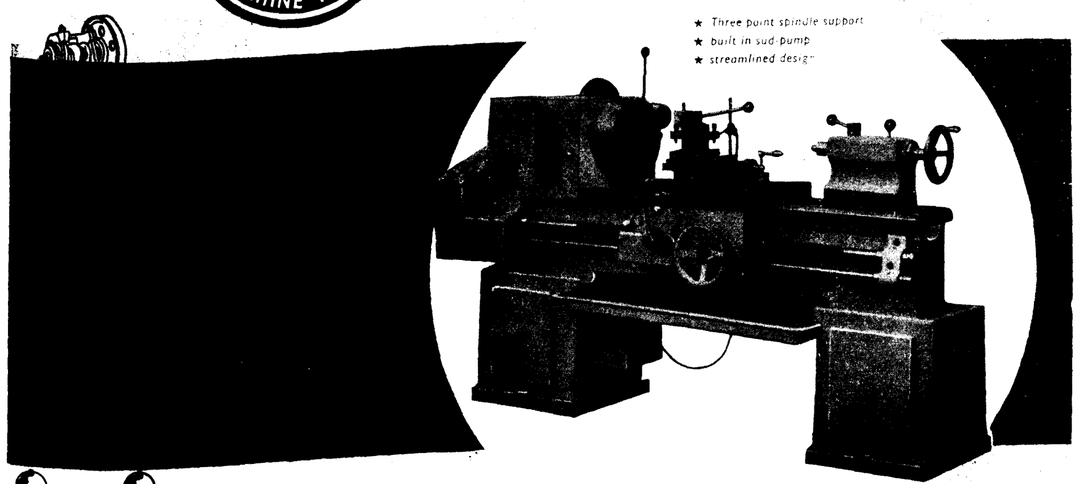
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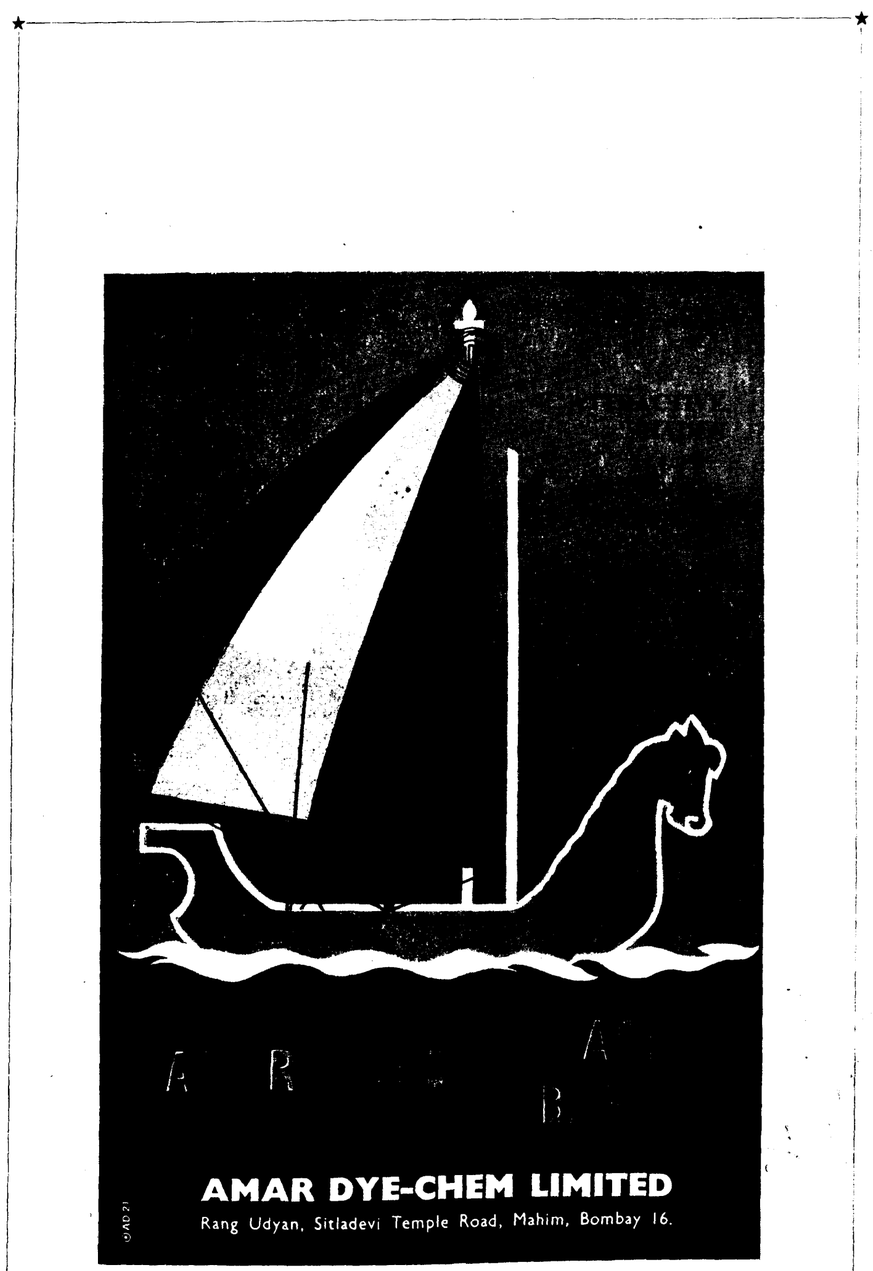
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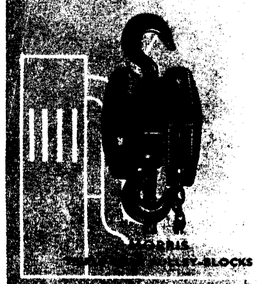
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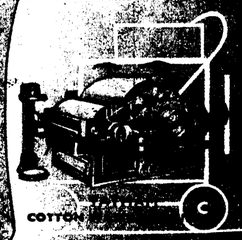
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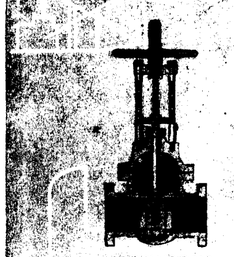


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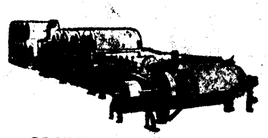
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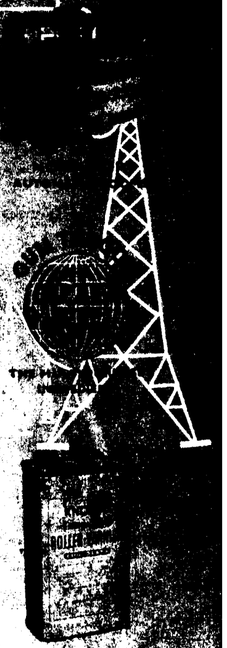


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